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SUSAN COMBS TEXAS COMPTROLLER OF PUBLIC ACCOUNTS  
COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR THE STATE  
OF TEXAS FOR THE FISCAL YEAR ENDING AUGUST 31, 2009









The  
State of Texas

## Comprehensive Annual Financial Report

Fiscal Year Ending August 31, 2009

**Susan Combs**  
Texas Comptroller of Public Accounts

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# State of Texas

## Comprehensive Annual Financial Report

For the Year Ended August 31, 2009

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## Section One

# Introductory Section





February 26, 2010

To the Citizens of Texas, Governor Perry  
and Members of the 81st Texas Legislature:

The Comprehensive Annual Financial Report (CAFR) of the state of Texas for the fiscal year ended Aug. 31, 2009, is submitted herewith. Responsibility for both the accuracy of the data presented, as well as the completeness and fairness of the presentation, rests with the office of the Texas Comptroller of Public Accounts. To the best of my knowledge, the information presented is accurate in all material respects, and all disclosures necessary for a reasonable understanding of the state's financial activities have been included.

The reporting approach established by the *National Council on Governmental Accounting in Statement No. 1* and endorsed by the Governmental Accounting Standards Board (GASB) has been utilized. The state also voluntarily follows the recommendations of the Government Finance Officers Association (GFOA) of the United States and Canada for the contents of government financial reports and participates in the GFOA's review program for the Certificate of Achievement for Excellence in Financial Reporting. This report is divided into three sections. (1) The introductory section provides this transmittal letter, elected state officials, government structure of Texas and the GFOA Certificate of Achievement. (2) The financial section includes the auditor's opinion; management's discussion and analysis (MD&A), which provides an introductory overview and analysis of the financial statements; the financial statements, which present government-wide financial statements for the primary gov-

ernment along with the component units of the state of Texas and fund financial statements for governmental funds, proprietary funds and fiduciary funds, together with the notes to financial statements; required supplementary information other than MD&A, which presents budgetary comparison schedules, information about infrastructure assets and information about pension and other postemployment benefit plans; and other supplementary information, which includes the combining financial statements. (3) The statistical section provides various financial, economic and demographic data about the state.

The state auditor has performed an audit in accordance with generally accepted auditing standards of the state's general-purpose financial statements. His opinion is presented in this report preceding the financial statements.

The state auditor has contracted with KPMG to perform portions of the federal audit procedures necessary to meet the requirements of the federal Single Audit Act Amendments of 1996 and related Office of Management and Budget (OMB) Circular A-133. The federal portion of the Statewide Single Audit Report for the year ended Aug. 31, 2009, with the opinion expressed by KPMG, will be issued separately.

## Profile of the Government

This report includes government-wide financial statements and fund financial statements of various depart-

ments, agencies and other organizational units, which are considered part of the state of Texas financial reporting entity. Criteria for determining the reporting entity and presentation of the related financial data are established by GASB. The criteria include legal standing and financial accountability. Other organizations, which would cause the financial statements to be misleading or incomplete if they were excluded, are also included in the reporting entity. Note 1 of the notes to financial statements provides detail on the financial reporting entity. A brief summary of the nature of significant component units and their relationship to the state of Texas is discussed in Note 19.

All activities that would generally be considered part of the state of Texas are included in this report. These activities provide a range of services in the areas of education, health and human services, public safety and corrections, transportation, natural resources and recreation, regulation, general government, employee benefits and teacher retirement benefits.

### **Accounting System and Budgetary Controls**

The MD&A, in the financial section, provides an overview of the state's financial activities addressing both governmental and business-type activities reported in the government-wide financial statements. In addition, MD&A focuses on the state's major funds: the general fund, state highway fund, permanent school fund, colleges and universities funds, Texas Water Development Board funds and the Texas Department of Transportation Turnpike Authority. The fiduciary activities are excluded from the MD&A.

The state's financial statements for governmental funds, including general, special revenue, debt service, capital projects and permanent funds, have been prepared on the modified accrual basis of accounting in conformity with generally accepted accounting principles (GAAP). Revenues are recognized when measurable and available to finance current expenditures; expenditures are recognized when the related liability is incurred. The government-wide financial statements (statement of net assets and statement of activities), proprietary (including colleges and universities), pension and other employee benefit trust, external investment trust, private-purpose trust and agency funds are accounted

for on the accrual basis. A summary of the state's significant accounting policies and other necessary disclosures are included in the notes to financial statements.

The state's internal accounting controls provide reasonable assurance regarding the safeguarding of assets against loss from unauthorized use or disposal and the reliability of financial records for preparing financial statements. The concept of reasonable assurance recognizes that the cost of a control should not exceed the resulting benefit.

Budgetary control is exercised through expenditure budgets for each agency. These budgets are entered on the state-wide accounting system after an appropriations bill becomes law. The appropriations bill becomes law after passage by the Legislature, certification by our office that the amounts appropriated are within the estimated collections and the signing of the bill by the governor. Controls are maintained first at the agency level, with additional control at the fund and appropriation level to ensure that expenditures do not exceed authorized limits. Further detail on budgetary accounting for the state is found in the required supplementary information other than MD&A section.

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded to reserve a portion of the applicable appropriations, is employed for purposes of budgetary control and contract compliance. Encumbrances at year-end do not constitute expenditures or liabilities.

### **Economic Outlook and Major Initiatives**

The Texas economy joined the nation in employment losses in 2009. Over the 12 months ending in December 2009, Texas lost 2.6 percent of its jobs. Texas' nonfarm employment totaled 10.4 million in December 2009, for a year-to-year decline of 276,000 jobs. After five years of Texas job growth averaging 2.5 percent per year, distressed national and international markets dragged the state into its first job decline since 2003.

Although the 2.6 percent jobs loss in 2009 was the biggest hit to Texas employment since 1986, it was less extreme than the national employment picture, where the U.S. lost 3.1 percent of its jobs over the year. Among the ten most popu-

lous states, seven had job loss rates greater than 3 percent, with the largest being a 5.1 percent loss in Michigan.

The relative advantage of the Texas economy over that of the nation has been long-standing. As an indicator that the state's economy was comparatively healthy, the U.S. Bureau of the Census (Census Bureau) reported that Texas added more people (478,000) than any other state from July 1, 2008, to July 1, 2009. Texas ranked third in the rate of population growth, having a faster rate of growth than all states except the much less populous states of Utah and Wyoming, and had more than twice the net migration of any other state. According to Census Bureau estimates, Texas (with 8.1 percent of the U.S. population) accounted for 18.2 percent of the nation's total population growth during the year. Nearly one half of the population increase during the year (232,000) was from net migration.

Texas' 8.3 percent unemployment rate was well below the nation's unemployment rate of 10 percent. Texas had the lowest rate of unemployment among the ten largest states, with rates ranging from 8.3 percent in Texas to 14.6 percent in Michigan. Texas' jobless rate rose from 5.6 percent in December 2008 to a 22-year peak of 8.3 percent in October and December 2009. The nation's unemployment rate increased from 7.4 percent in December 2008 to a peak of 10.2 percent in October 2009 and 10 percent in December 2009.

### **The Great Recession**

In 2009, the nation experienced its worst recession since World War II. As the nation's real gross domestic product fell by 2.5 percent during the year, Texas' real gross domestic product fell by 1.7 percent in 2009. This was the state's first decline in inflation-adjusted economic production since the mid-1980s. Weaker export markets and a downshift in the oil and natural gas industry led to job contraction in Texas. Recessions during the year in much of the world combined with a stronger dollar to wallop domestic markets and international export potential. In its position as the nation's largest exporting state, Texas accounted for one-seventh of total U.S. exports, so its estimated 19 percent drop in exports during 2009 was a major drag on the state economy, par-

ticularly as this loss coalesced with a marked weakness in energy, construction and goods manufacturing.

Texas had its worst year in personal income improvements since the federal government has produced personal income estimates for states. During 2009, Texas posted a year-to-year nominal loss in total personal income for the first time in nearly 50 years of state reports.

The Consumer Confidence Index, a monthly measure of the level of optimism consumers have in the economy produced by The Conference Board, is one positive indicator that the state economy is in the early stages of a slow recovery. In March 2009, the monthly confidence index for the region containing Texas and its neighboring states fell to its lowest level on record. From March to December 2009, the index climbed by 25.3 points (55 percent), from its March low of 46.4 to 71.7 as 2009 ended. Even with this marked improvement during the year, the 2009 annual average of 68.3 points was well below its 1985 baseline level of 100 points and the lowest annual average since 1992. A deep fallout from lower employment levels, severely tight credit and serious losses in personal income kept consumers uncertain and comparatively pessimistic about the economy.

### **The Job Picture by Industry**

Even in the midst of recession, some Texas industries expanded in 2009. The state's major goods-producing industries each lost employment during the year, but three of Texas' eight service-providing industries bucked the trend and added jobs. Of particular note was education and health services, which had a net gain of 60,400 jobs and expanded by 4.6 percent, due primarily to increased outpatient health care and social assistance services. Other industries that expanded included other services due to growth in religious, professional and civic services, and government, which responded to new service needs during the slow economy. In general, however, the contraction in goods-producing industries—mining, construction and manufacturing—far outstripped the service industries' job gains in 2009.

Mining and logging, the industry that had buffered Texas from the national recession during most of 2008, experienced a 12.6 percent drop in employment from December 2008 to December 2009. Texas' oil and natural



gas sector benefited significantly from higher energy prices in 2008, promoting active oil and gas exploration and development. Oil prices fell sharply in late 2008, to a low of about \$35 per barrel before recovering to nearly \$80 per barrel as 2009 came to an end. With Texas serving as the headquarters for many companies in the oil and natural gas industry, mining's contribution to Texas personal income is more than five times the national share. Texas employment in the industry peaked at 240,200 jobs in December 2008. Because of a lag time between energy price changes and employment changes, industry employment sank as far as 201,800 jobs in August 2009, before firmer prices translated into a partial job recovery to 209,900 jobs by December. The number of operating oil and natural gas drilling rigs in the state averaged 898 in 2008 but fell to an average of 432 in 2009, with the lowest point of 329 in June before an uptick to 470 by December.

The Texas construction industry had begun to lose jobs before mining, with a peak employment in April 2008 and continuing job losses through 2009. With the nation's mortgage woes and tight credit markets, the precipitous decline in housing construction nationally seeped into Texas as well. As the recession took hold in Texas, the focus of construction activity shifted from building single-family homes to the construction of utility systems, refineries and pipelines related to the state's oil and natural gas industry, as well as heavy engineering construction of multi-family residences and highways. As the economy sank deeper, double-digit percentage job losses were seen in all of Texas' major construction sectors.

According to data from the Texas A&M Real Estate Center, new single-family house building permits in Texas declined 15 percent in the 12 months ending in December 2009. The number of multi-family permits fell more precipitously, by nearly two-thirds (66 percent) over this period. Even with these losses during the year, Texas has fared better than many other states, mostly because of its relatively stable real estate prices.

A national recession, weak international markets, anemic consumer spending and continued growth in productivity per worker coalesced and caused a 9.8 percent loss in manufacturing jobs during the 12 months ending in Decem-

ber 2009. Nearly all manufacturing sectors lost employment, although chemical manufacturing eked out a gain of 0.7 percent, with an increase of 500 jobs. Fabricated metal products had the greatest percentage job decline of any Texas sector, losing 24.5 percent during the year, for a 33,100 job loss. This sector was particularly hurt by a severe curtailment in the demand for oil and natural gas drilling rigs and equipment. Exports remain a hallmark of the state economy, but exporting manufacturers face recessionary economies in much of the world, choking off a potent source for manufacturing growth in the near future.

During 2009, wage cuts, shorter working hours, the loss of home equity income and high debt burdens kept consumer spending lukewarm. With this anemic spending, Texas saw an 8.2 percent decline in sales tax collections during calendar year 2009. Motor vehicle sales retrenched even more, and although the federal Cash for Clunkers program stimulated some temporary sales, motor vehicle sales tax collections fell by nearly 21 percent in 2009.

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## Outlook for 2010 and 2011

Based on the Comptroller's most recent state economic forecast, the Texas economy will be markedly healthier in 2010 than in 2009, but its rate of growth from a recessionary base will be substantially slower than average. The Comptroller's office's Index of Leading Texas Economic Indicators has four indicators pointing toward a stronger Texas economy in the upcoming months, but six of the 10 indicators suggest continued weakness. Economic indicators in both Texas and the nation have been on a general upward trend since March 2009, but improvements have been gradual and inconsistent. A weak recovery is expected, grounded in an economy that continues to be buffeted by tight credit markets, cash-strapped international markets and the winding down of federal economic stimulus monies. The longer term outlook is more optimistic. After rocky improvement in 2010, calendar year 2011 will return to a more typical growth pattern as the economy more completely recovers.

The Comptroller's office's leading economic indicators suggest a period of extended weakness in the state economy during 2010. The index, a composite of 10 indicators, is designed to forecast the state's employment growth

four to six months in advance. The index has seen gradual improvement over the past half year, but continues at levels well below those seen in 2008. Since it is a major factor driving housing and other major purchases, consumer confidence is a key indicator of economic health, but this index dropped to its lowest level in more than five years at the end of 2008. The recovery of consumer confidence in 2009 was substantial but the overall confidence level remained 28 points below its baseline as 2009 ended, indicating that a full recovery is not imminent.

Even so, the Texas outlook is marginally more positive than that for the nation, in line with Texas gross domestic product growth having outperformed U.S. growth in all but one year since 1991. The state economy will outperform the national economy by about one-half percentage point growth in 2010 and again in 2011, averaging about a 3 percent increase in real terms per year, compared to 2.5 percent for the nation. The state's population will increase by an average of 1.8 percent per year in 2010 and 2011. About two-fifths of the growth will result from net migration to the state, as job seekers elsewhere respond to a relatively healthier Texas economy. During 2010, the state's population will average 25.3 million.

Anemic employment gains in Texas are expected to resume in 2010 before recharging to a more typical 2.2 percent rate of growth in 2011. In comparison, U.S. nonfarm employment is forecast to decline slightly in 2010 before advancing by 1.8 percent in 2011. The unemployment rate will remain stubbornly high in both Texas and the nation in 2010, with less than a percentage point of improvement expected through the year. Average unemployment rates in 2011 will likely stay above the 2009 average. Although higher than usual, Texas' jobless rate throughout 2010 and 2011 will remain almost two percentage points better than the nation's.

Personal income growth in Texas is forecast to see mild growth in 2010, followed by even stronger growth in 2011. Still, low inflation will put a damper on wage gains. Texas total personal income advanced by an average 7.7 percent a year for four years before slipping to a 4.6 percent increase in 2008 and losses in 2009. Personal income is expected to grow by 3 percent in 2010 and 4.5 percent in 2011.

National forecasters expect the dollar's value to continue its slide relative to major world currencies, helping Texas exports to recover. On the flip-side, international purchasing demand is expected to revive slowly. Texas exports, estimated at \$155 billion in calendar 2009, represented nearly 13 percent of the state's gross economic product, as well as 15.4 percent of all U.S. exports. Texas exports per capita are nearly twice the national average and are forecast to exceed \$185 billion in 2011. Even with the growth, total exports from the state are facing strong headwinds from a generally weak global economy and will not recover to 2008's record level of \$192 billion until 2012.

Inventory rebuilding, export sales and capital spending on equipment will have respectable gains in 2010, and interest rates are expected to remain low until the economy shows signs of self sustained growth. Consumer spending will be strapped by credit tightness and slower than average income growth. Even with these economic hurdles in 2010, the Texas economy should outpace the U.S. economy for the same reasons that it is outperforming the recessionary national economy today. These include continued net migration into the state, a Sunbelt location at the buckle of the nation's South and West, an experienced workforce, a comparatively healthy housing market, a strategic geographic position for Latin American trade and a comparatively attractive cost of doing business.

## **American Recovery and Reinvestment Act Funding**

On Feb. 17, 2009, the American Recovery and Reinvestment Act (ARRA), which was created to preserve and create jobs and promote economic recovery, was signed into law. ARRA funding was dedicated to investments in infrastructure; energy efficiency; and science and state and local fiscal stabilization.

The Comptroller of Public Accounts State Energy Conservation Office (SECO) received over \$290 million in formula grant funding from the U.S. Department of Energy (DOE) through four separate programs as a result of ARRA. These include \$218.8 million in funding for the State Energy Program (SEP); \$45.6 million in funding for the Energy Efficiency and Conservation Block Grant

(EECBG) Program; \$23.3 million in funding for the State Energy Efficient Appliance Rebate Program (SEEARP); and \$2.4 million in funding for the Enhancing State Government Energy Assurance Capabilities and Planning for Smart Grid Resiliency (“Energy Assurance” or EA) Program.

The ultimate goals of these four programs are to conserve and protect our energy supplies through energy efficiency, renewable energy, transportation efficiency and emergency planning projects. SECO had to submit applications to DOE and receive approval before being awarded ARRA funding. DOE approved all four of SECO’s applications, and SECO began its process of providing funds to support projects in Texas in fall 2009.

For SEP, a competitive Request for Applications process was or will be used for SEP sub-programs including a Building Efficiency and Retrofit revolving loan program, a Distributed Renewable Energy Technology grant program, a Transportation Efficiency grant program (alternative fuels and traffic light synchronization) and an Energy Sector Training Centers grant program. Further, a public education and outreach campaign will be conducted to educate Texans on the benefits of energy efficiency and renewable energy, in addition to providing information and tools for Texans to make informed decisions. For EECBG, SECO reallocated its \$45.6 million grant award based on population to the approximately 1,100 cities and counties in Texas not receiving direct EECBG allocation from DOE. Grant amounts range from approximately \$23,000 to \$172,000. Eligible projects include building energy audits and retrofits, installation of distributed energy technologies, installation of energy efficient traffic signals and street lighting and installation of renewable energy technologies on governmental facilities. The SEEARP is directed at residential consumers and will provide rebates for the purchase of Energy Star appliances when consumers replace old, functional appliances.

All four DOE ARRA grants to SECO are three-year grants. More information on these programs can be found at: [www.secostimulus.org](http://www.secostimulus.org). More information about other ARRA funding awarded to the state of Texas can be found at: [www.window.state.tx.us/recovery](http://www.window.state.tx.us/recovery).

## Jobs and Education for Texans (JET) Grant Program

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In December 2008, the Comptroller’s office released the *Texas Works* report, which found a widening gap between the demand for skilled workers in Texas and the state’s ability to meet that demand. The report also stressed the stark reality that if workers cannot be found, businesses and jobs may go elsewhere. *Texas Works* identified the need to assist two-year colleges that train workers in immediately marketable skills, as well as job training programs that can create opportunities for Texans who would otherwise languish near the poverty line.

One of the recommendations within the *Texas Works* report called for the state to create a \$25 million education fund to support career technical education. In 2009, to address those needs identified in *Texas Works*, the 81st Legislature enacted House Bill 3 and House Bill 1935 and appropriated \$25 million for the JET program to help Texans get technical training for careers in fast-growing, high-demand occupations. These include high-paying fields such as high-tech manufacturing, computer support, nursing and allied health professions.

The Comptroller’s office will administer JET under the Every Chance Funds program. A \$10 million job building fund will help finance equipment purchases for new career and technical education programs started throughout the state that support high-growth industries. The job building fund will require matching local funds and be awarded on a competitive basis.

Another \$10 million fund, the launchpad fund, will support and expand existing nonprofit programs with a proven track record of good performance. The money from this fund will be allocated to develop, support or expand programs of nonprofit organizations that prepare low-income students for careers in high-demand occupations.

Finally, the \$5 million career and technical scholarship fund allocates money for approved training programs for high-demand occupations. As part of the overall Every Chance Funds program, the Comptroller’s office created a list of approved training programs for high-demand occupations to fulfill future work force needs in Texas. Students who apply for these scholarships must seek a certificate

or associate's degree in one of these high-demand occupations. Funds for scholarships covering tuition and fees will be granted directly to community and technical colleges to distribute to students with financial need.

On Oct. 20, 2009, the Comptroller's office awarded \$2.5 million in scholarships to community colleges and technical schools and \$3.5 million in grant awards to non-profit organizations that help prepare low-income students for careers in high-demand technical occupations. On Dec. 18, 2009, the Comptroller's office announced the award of \$2.3 million in job building fund grants to help finance equipment purchases for new career and technical education programs that support high-growth industries throughout the state.

## Transparency

The Comptroller's office has continued efforts to promote openness in government and financial transparency at all levels. Financial transparency at the state level was implemented in January 2007 with the posting of Comptroller's office expenditures on the award winning *Where the Money Goes* Web site. This effort was expanded in December 2008 via the *Texas Transparency Check Up* Web site. Our office has encouraged local governments in Texas to open their books to the public by posting their budgets, annual financial reports and check registers online. The *Texas Transparency Check Up* offers a convenient way to track the progress of local governments toward this goal, and for taxpayers to see how their local governments are spending their tax dollars. It lists all 254 Texas counties, the top 50 most populous cities, over 1,000 school districts, as well as special districts such as river and transit authorities and their transparency status. If the public entities have a Web site, it includes direct links to annual budgets, annual financial reports and check registers, if these are available. The Web site has additional pages, including What is Transparency, Taxpayers Tips, Transparency Success Stories, Transparency Tips and Tools and other information to inform taxpayers about transparency and to encourage local entities to follow the state example by posting and updating online financial documents.

The initial data to create the *Texas Transparency Check Up* was compiled by Comptroller staff from various sources.

This staff work was followed by an e-mail to county judges, mayors and school superintendents to inform them of the *Texas Transparency Check Up* and request their cooperation in keeping this data as current as possible. Staff found that local governments had made significant progress toward transparency. More than 50 percent of the 254 counties, 90 percent of the 50 most populous cities and 75 percent of the school districts had taken the first step toward transparency by posting at least one of the three recommended financial documents online. The annual budget was the most common document posted, followed by the annual financial report. The check register was least likely to be posted since it appears at least monthly, if not more frequently, and must be reviewed to remove protected or confidential data.

The Comptroller's office conducted an online survey in August 2009 to obtain input from local officials on any problems or issues that may hinder them from implementing financial transparency. Most local governments that responded agreed with the basic philosophy behind financial transparency—that taxpayers have a right to know how government spends their tax dollars. A majority of those who had not yet implemented our recommended best practices, however, said that they probably would not do so until it was mandated. Many smaller entities, especially smaller cities and towns, lack technical staff and resources and need help to move ahead with transparency. Comptroller of Public Accounts Local Government Assistance and Economic Development staff plan to supplement the guidance already available on the *Texas Transparency Check Up* site by working with several partners, including the Texas Association of Counties, the Texas Municipal League and the LBJ School of Public Affairs to provide better technical assistance. Future plans are to expand the listings on the *Texas Transparency Check Up* site by listing smaller cities and other special districts that voluntarily provide their data. Additional incentives to move ahead on transparency will be provided via an awards program that will spotlight local governments opening their books to the public. Local governments can use a free, online scoring process to submit a nomination for an award. The scoring criteria will provide benchmarks that any local government may use to evaluate themselves and see how they compare to those who are leaders in the movement toward transparency.

## Property Tax Value Limitations

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In 2001, the 77th Legislature enacted House Bill 1200, creating Tax Code Chapter 313, the Texas Economic Development Act (Act). The Act allows school districts to attract new taxable property and assist in new job creation by offering a tax credit and an eight-year limitation on the appraised value of real and personal tangible property for the maintenance and operations portion of a school district's tax rate. In exchange for the appraised value limitation and tax credit, a property owner is required to enter into an agreement with the school district to create a specific number of high-wage jobs and build or install specified types of real and personal property worth a certain amount.

To qualify, the property must be in a reinvestment zone and must be devoted to manufacturing, research and development, renewable energy generation, nuclear power generation, advanced clean energy projects or electric power generation using integrated gasification combined cycle technology. The amount of investment and the minimum amount of the value limitation varies according to whether the school district is considered a rural or non-rural district and according to the amount of taxable property value in the school district.

In 2009, the 81st Legislature enacted House Bill 3676, bringing a number of substantive and technical changes to the Act. The Comptroller was given clearer authority to determine project eligibility, as well as make more substantive recommendations to school districts. More information about the projects is required to be posted on the Internet, and the legislation establishes clearer performance standards and new penalties for non-performance. The bill also extended the program's sunset date from Dec. 31, 2011, to Dec. 31, 2014. As of January 2010, 96 school districts were parties to 135 value limitation agreements, with the bulk of projects involving manufacturing facilities and wind farms. With the economic slowdown, the number of limitation agreements approved in 2009 was lower than that in each of the previous two years.

## Event Trust Funds

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The 2003 Legislature authorized the first event trust fund program as an incentive tool to help Texas communities attract major sporting events such as the Super Bowl, NCAA Final Four tournaments and professional all star

games. Other trust fund programs created since then have established the incentive for smaller sporting programs, motor sports racing events and non-athletic events. Currently, four trust fund programs allow Texas cities and counties to request the creation of a trust fund for the reimbursement of costs related to attracting and holding a wide variety of athletic and non-athletic events in the state.

Both the state and the city or county requesting the trust fund contribute tax revenue to the fund. State law requires the revenue to be deposited in the trust fund for an event to be the estimated gains in sales tax, hotel occupancy tax, motor vehicle rental tax and alcoholic beverage taxes from hosting the event. The state share of the trust fund can be up to, but not greater than, the amount of projected state revenue gain from these taxes. A local match is required to receive the state funds. To receive the maximum amount of state funds available, the local entity or entities must deposit an amount equal to 16 percent of the amount of state money in the trust fund.

The number of trust fund requests has grown significantly since the program began. In 2009 the Legislature broadened eligibility to include non-athletic events and eliminated population criteria for cities and counties to participate. In fiscal 2004, the first year in which events were eligible, the state funded event trust fund requests for three events. In fiscal 2006, four more events were authorized reimbursement funding. The number grew to seven in fiscal 2007, eight more in fiscal 2008 and then jumped to 23 events in fiscal 2009. As of Jan. 1, 2010, a total of 30 events to be held in fiscal 2010 have been approved for reimbursement funding thus far. The amount of funding authorized for all events held through the end of fiscal 2009 totaled \$53 million, of which \$46.9 million came from state funds and \$6.1 million from local funds.

## Awards and Acknowledgments

### Certificate of Achievement

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The Government Finance Officers Association (GFOA) of the United States and Canada awarded a Certificate of Achievement for Excellence in Financial Reporting to the state of Texas for its *Comprehensive Annual Finan-*



*cial Report* for the fiscal year ended Aug. 31, 2008. The Certificate of Achievement is a prestigious national award that recognizes conformance with the highest standards for preparation of state and local government financial reports.

In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized *Comprehensive Annual Financial Report* whose contents conform to program standards. Such reports must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. The state of Texas has received a Certificate of Achievement for the last 19 years (fiscal years ended August 1990 through 2008). We believe our current report continues to conform to the Certificate of Achievement Program requirements and we will be submitting it to the GFOA.

I will continue to maintain a highly qualified and professional staff to make this certification possible.

## Acknowledgments

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The preparation of this report requires the collective efforts of literally hundreds of financial personnel throughout state government, including the dedicated management and staff of my Financial Reporting section and Fiscal Management Division; the chief financial officers, chief accountants and staff at each agency and the management and staff of the State Auditor's Office. I sincerely appreciate the dedicated efforts of all these individuals who continue to strive for improvements that will make Texas a national leader in quality financial reporting.

Sincerely,  
Susan Combs





# State of Texas Comprehensive Annual Financial Report

## State of Texas Elected State Officials

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### Executive

Rick Perry  
Governor

David Dewhurst  
Lieutenant Governor

Susan Combs  
Comptroller

Greg Abbott  
Attorney General

Jerry Patterson  
Land Commissioner

Todd Staples  
Commissioner of Agriculture

Elizabeth Ames Jones  
Victor G. Carrillo  
Michael L. Williams  
Railroad Commissioners

### Legislative

Lieutenant Governor, David Dewhurst, President of the Senate

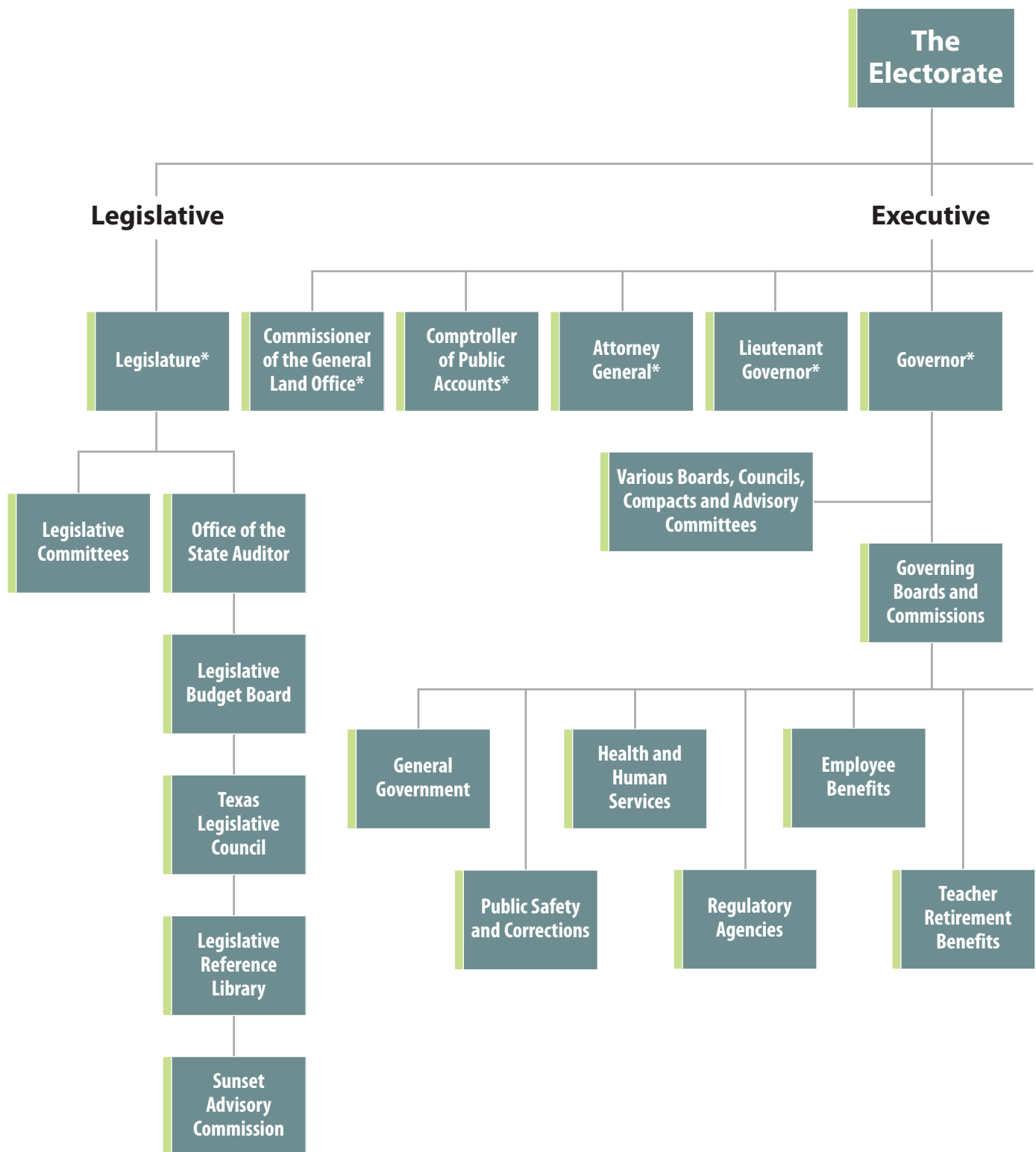
Joe Straus  
Speaker of the House of Representatives

### Judicial

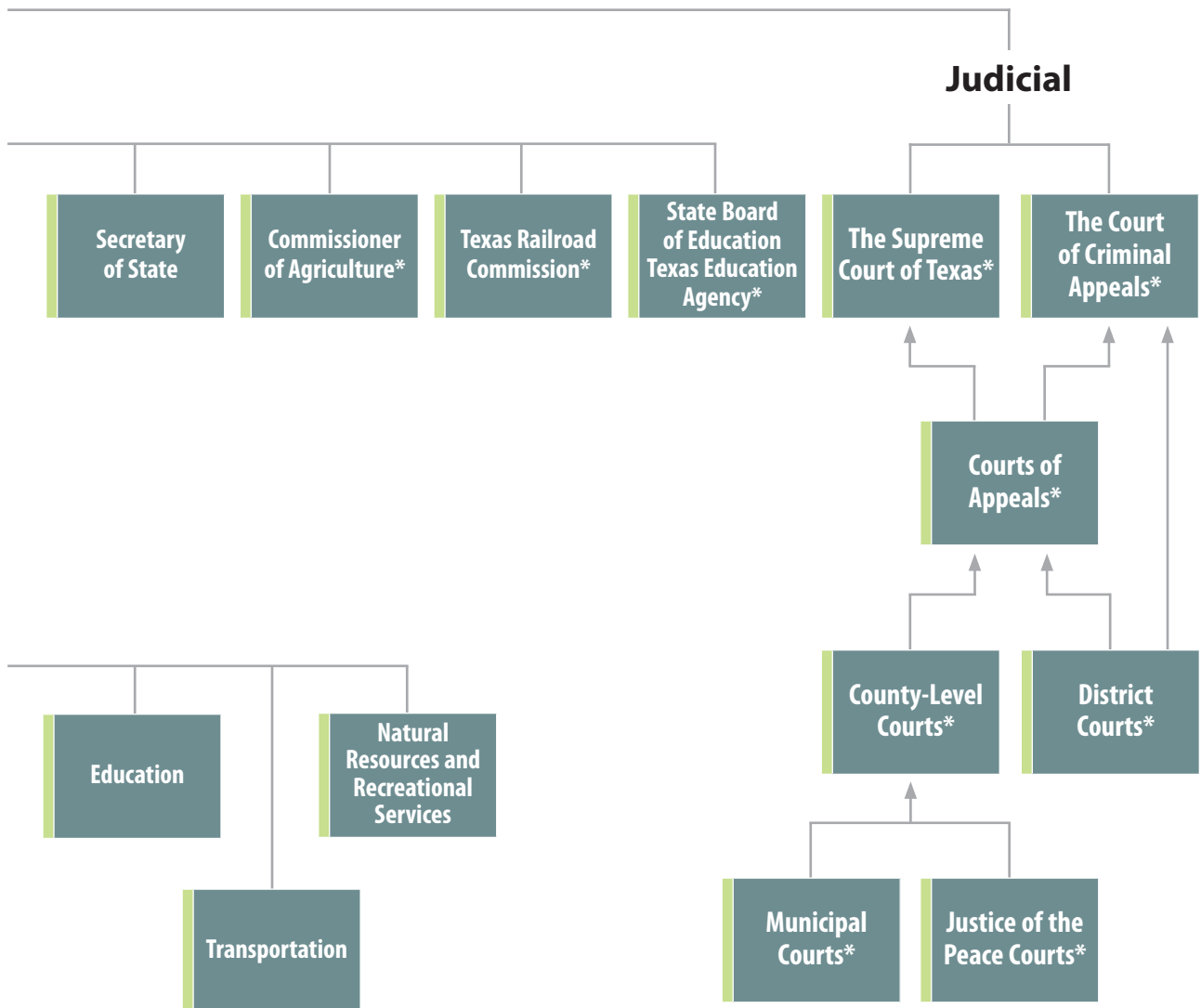
Wallace B. Jefferson  
Chief Justice of the Supreme Court

Sharon Keller  
Presiding Judge, Court of Criminal Appeals

# Government Structure of Texas



\* Elected Offices





# Certificate of Achievement for Excellence in Financial Reporting

Presented to

## State of Texas

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
August 31, 2008

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

A stylized, handwritten signature in black ink.

President

A stylized, handwritten signature in black ink.

Executive Director



## Section Two

# Financial Section



## INDEPENDENT AUDITOR'S REPORT

The Honorable Rick Perry, Governor  
The Honorable Susan Combs, Comptroller or Public Accounts  
The Honorable David Dewhurst, Lieutenant Governor  
The Honorable Joe Straus, Speaker of the House of Representatives  
and  
Members of the Legislature, State of Texas

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate discretely presented component unit and remaining fund information of the State of Texas as of and for the year ended August 31, 2009, which collectively comprise the State's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the State Comptroller of Public Accounts. Our responsibility is to express opinions on these financial statements based on our audit.

We did not audit the financial statements of the following entities and fund:

- The University of Texas Investment Management Company (UTIMCO) and the University of Texas M.D. Anderson Cancer Center (UTMDACC), which constitute 48 and 10 percent, respectively, of the assets of Colleges and Universities, a major enterprise fund. UTIMCO and UTMDACC also constitute 36 and 7 percent, respectively, of the assets of the business-type activities.
- The Permanent School Fund, a major governmental fund, which constitutes 44 percent of the assets of the governmental activities.
- The Texas Local Government Investment Pool (TexPool), a blended component unit, which constitutes 9 percent of the assets of the aggregate discretely presented component unit and remaining fund information, which primarily consists of fiduciary funds.

The financial statements listed above were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for these entities and TexPool, is based on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of UTIMCO and TexPool were not audited in accordance with *Government Auditing Standards*. An audit includes consideration of internal control over financial

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Phone:  
(512) 936-9500

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(512) 936-9400

Internet:  
[www.sao.state.tx.us](http://www.sao.state.tx.us)

SAO No. 10-332

reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the State's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate discretely presented component unit and remaining fund information of the State of Texas as of August 31, 2009, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

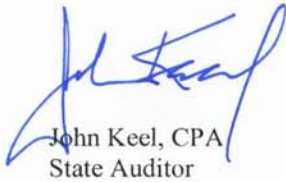
The management's discussion and analysis, the budgetary comparison schedule, the modified approach to reporting infrastructure assets, and the schedules of funding progress, as listed in the Table of Contents, are not required parts of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. This required supplementary information is the responsibility of the State Comptroller of Public Accounts. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the State's basic financial statements. The combining financial statements, as listed in the Table of Contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. These financial statements are also the responsibility of the State Comptroller of Public Accounts. This supplemental information has been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, in our opinion, based on our audit and the reports of other auditors, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

We did not audit the introductory section or the statistical section and, accordingly, we express no opinion on them.

In accordance with *Government Auditing Standards*, we will issue a separate report on our consideration of the State's internal control over financial reporting and on our tests of the State's compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an

integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

A handwritten signature in blue ink, appearing to read "John Keel", is positioned above the printed name and title.

John Keel, CPA  
State Auditor

February 22, 2010







## Section Two (continued)

# Management's Discussion and Analysis



## Management's Discussion and Analysis

The following is a discussion and analysis of the state of Texas' financial performance for the fiscal year ended Aug. 31, 2009. Use this section in conjunction with the state's basic financial statements. Comparative data is available and presented for this 2009 report.

### Highlights Government-wide

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#### Net Assets

The assets of the state of Texas exceeded its liabilities by \$130.9 billion as of Aug. 31, 2009, a decrease of \$11.9 billion or 8.4 percent from fiscal 2008.

#### Fund Level

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##### Governmental Funds

As of Aug. 31, 2009, the state's governmental funds reported a combined ending fund balance of \$40.2 billion, a decrease of \$3.8 billion or 8.6 percent from fiscal 2008. The state reported a positive unreserved fund balance of \$11.3 billion in fiscal 2009, a decrease of \$2.3 billion.

##### Proprietary Funds

The proprietary funds reported net assets of \$35 billion as of Aug. 31, 2009, a decrease of \$7.1 billion or 16.9 percent from fiscal 2008.

#### Long-Term Debt

---

The state's total bonds outstanding increased by \$3.9 billion or 14 percent during fiscal 2009 for governmental and business-type activities. This amount represents the net difference between net issuances, payments and refunding of outstanding bond debt. During the fiscal year, the state issued bonds totaling \$5.6 billion. More detailed information regarding the government-wide, fund level and long-term debt activities can be found in the debt administration section of this management's discussion and analysis (MD&A).

## Overview of the Financial Statements

The focus of this report is on reporting for the state as a whole and on the major individual funds. The report presents a more comprehensive view of the state's financial activities and makes it easier to compare the performance of Texas state government to that of other governments.

The Financial Section of this annual report presents the state's financial activities and position in four parts-(1) MD&A (this part), (2) the basic financial statements, (3) required supplementary information other than MD&A and (4) other supplementary information presenting combining statements. The report also includes statistical and economic data.

The basic financial statements include government-wide financial statements, fund financial statements and notes to financial statements that provide more detailed information to supplement the basic financial statements.

### Reporting on the State as a Whole

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The government-wide financial statements are designed to present an overall picture of the financial position of the state. These statements consist of the statement of net assets and the statement of activities, which are prepared using the economic resources measurement focus and the accrual basis of accounting. This means that all the current year's revenues and expenses are included, regardless of when cash is received or paid, producing a view of financial position similar to that presented by most private sector companies.

The statement of net assets combines and consolidates the government's current financial resources with capital assets and long-term obligations. This statement includes all of the government's assets and liabilities.

Net assets, which are the difference between the state's assets and liabilities, represent one measure of the state's financial health.

Other indicators of the state's financial health include the condition of its roads and highways (infrastructure) and economic trends affecting the state's future tax revenues.

The statement of activities focuses on both the gross and net cost of various activities (governmental, business-

type and component units); these costs are paid by the state's general tax and other revenues. This statement summarizes the cost of providing (or the subsidy provided by) specific government services and includes all current year revenues and expenses.

The government-wide statement of net assets and the statement of activities divide the state's activities into three types.

### **Governmental Activities**

The state's basic services are reported here, including general government, education, employee benefits, teacher retirement benefits, health and human services, public safety and corrections, transportation, natural resources and recreation and regulatory services. Taxes, fees and federal grants finance most of these activities.

### **Business-Type Activities**

Activities for which the state charges a fee to customers to pay most or all of the costs of certain services it provides are reported as business-type activities. The state's colleges and universities are included as business-type activities.

### **Component Units**

Component units are legally separate organizations for which the state is either financially accountable or the nature and significance of their relationship with the state is such that exclusion would cause the state's financial statements to be misleading or incomplete. The state includes 20 separate legal entities in the notes to this report.

## **Reporting on the State's Most Significant Funds**

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Fund financial statements provide additional detail about the state's financial position and activities. Some information presented in the fund financial statements differs from the government-wide financial statements due to the perspective and basis of accounting used. Funds are presented on the fund level statements as major or nonma-

major based on criteria set by the Governmental Accounting Standards Board (GASB).

A fund is a separate accounting entity with a self-balancing set of accounts. The state uses funds to keep track of sources of funding and spending related to specific activities.

### **Governmental Funds**

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A majority of the state's activity is reported in governmental funds. Reporting of these funds focuses on how money flows into and out of the funds and amounts remaining at year end for future spending.

Governmental funds are accounted for using the modified accrual basis of accounting, which measures cash and other assets that can be readily converted to cash. The governmental fund financial statements provide a detailed short-term view of the state's general governmental operations and the basic services it provides. This information should help determine the level of resources available for the state's programs. The reconciliation following the fund financial statements explains the differences between the government's activities, reported in the government-wide statement of net assets and the government-wide statement of activities, and the governmental funds. The general fund, state highway fund and permanent school fund are reported as major governmental funds.

### **Proprietary Funds**

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When the state charges customers for services it provides, these activities are generally reported in proprietary funds. Services provided to outside (non-governmental) customers are reported in enterprise funds, a component of proprietary funds, and are accounted for using the economic resources measurement focus and the accrual basis of accounting. These are the same business-type activities reported in the government-wide financial statements, but are reported here to provide information at the fund level.

Services provided by one program of the state to another are reported in internal service funds, the other component of proprietary funds. The state's employees' life, accident and health insurance benefits fund is reported as the only internal service fund.

Colleges and universities, Texas Water Development Board funds and the Texas Department of Transportation Turnpike Authority are shown as major proprietary funds.

## Reporting on the State's Fiduciary Responsibilities

The state is the trustee or fiduciary for six defined benefit plans and one defined contribution plan. It is also responsible for other assets that can be used only for trust beneficiaries. All state fiduciary activities are reported in separate statements of fiduciary net assets and changes in fiduciary net assets. The activities are reported separately from other financial activities because the state cannot use the assets to finance state operations. The state's fiduciary responsibilities include ensuring that the assets reported in these funds are used for their intended purposes.

## Financial Analysis of the State as a Whole

### Net Assets

Total assets of the state on Aug. 31, 2009, were \$193.6 billion, a decrease of \$17.2 billion or 8.2 percent. Total liabilities as of Aug. 31, 2009, were \$62.7 billion, a decrease of \$5.3 billion or 7.7 percent. Net assets were affected by a number of factors. Cash and cash equivalents fell \$11.1 billion from fiscal 2008 while investments decreased \$10.9 billion. The decrease in cash and cash equivalents was partly due to spending down available balances as income resources diminished. The issuance of tax and revenue anticipation notes in fiscal 2008 were repaid in fiscal 2009 as well. This also is the primary explanation for the \$9.9 billion decrease in current liabilities from the reduction of

## Statement of Net Assets

August 31, 2009 and 2008 (Amounts in Thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2009	2008	2009	2008	2009	2008
<b>ASSETS</b>						
Assets Other Than Capital Assets	\$ 56,087,439	\$ 70,107,763	\$ 47,928,129	\$ 55,324,352	\$ 104,015,568	\$ 125,432,115
Capital Assets	69,946,975	67,326,888	19,633,273	18,041,575	89,580,248	85,368,463
Total Assets	<u>126,034,414</u>	<u>137,434,651</u>	<u>67,561,402</u>	<u>73,365,927</u>	<u>193,595,816</u>	<u>210,800,578</u>
<b>LIABILITIES</b>						
Current Liabilities	16,212,909	24,613,778	9,285,023	10,783,876	25,497,932	35,397,654
Noncurrent Liabilities	13,959,499	12,149,685	23,258,541	20,429,743	37,218,040	32,579,428
Total Liabilities	<u>30,172,408</u>	<u>36,763,463</u>	<u>32,543,564</u>	<u>31,213,619</u>	<u>62,715,972</u>	<u>67,977,082</u>
<b>NET ASSETS</b>						
Invested in Capital Assets, Net of Related Debt	59,719,286	58,207,920	7,654,750	7,384,503	67,374,036	65,592,423
Restricted	32,664,185	31,358,171	18,743,589	24,882,981	51,407,774	56,241,152
Unrestricted	<u>3,478,535</u>	<u>11,105,097</u>	<u>8,619,499</u>	<u>9,884,824</u>	<u>12,098,034</u>	<u>20,989,921</u>
Total Net Assets	<u>\$ 95,862,006</u>	<u>\$ 100,671,188</u>	<u>\$ 35,017,838</u>	<u>\$ 42,152,308</u>	<u>\$ 130,879,844</u>	<u>\$ 142,823,496</u>

this short-term debt. Investments decreased by \$10.9 billion as financial markets weakened, and university contributions and various dedicated resources declined. Invested in capital assets, net of related debt increased \$1.8 billion from additions to the state's highway system and college and university building and building improvement projects. There was an increase in total bond debt of \$3.9 billion as well, with increases to both general obligation and revenue bonds. The state's bonded indebtedness was \$31.4 billion, which included new issuances of \$5.6 billion in state bonds to finance new construction, housing, water conservation and other projects. Approximately \$1.8 billion in bonded debt was retired or refunded. The net asset balance was \$130.9 billion in fiscal 2009, a decrease of \$11.9 billion or 8.4 percent. Of the state's net assets, \$67.4 billion were invested in capital assets, net of related debt, while \$51.4 billion were restricted by statute or other legal requirements and were not available to finance day-to-day operations of the state. Unrestricted net assets were \$12.1 billion.

### Changes in Net Assets

---

The state earned program revenues of \$59.8 billion and general revenues of \$38.7 billion, for total revenues of \$98.6 billion, a decrease of \$748.7 million or 0.8 percent. The major components of this decrease were taxes, which had a decline of \$5.5 billion and unrestricted investment earnings with a decline of \$924.9 million. Operating grants and contributions, however, increased \$5.3 billion, or 17.3

percent, in collections over the prior year. Increases totaling \$7.5 billion in federal funding for hurricane disaster relief, unemployment assistance, Medicaid, nutrition assistance and from the American Recovery and Reinvestment Act (ARRA) offset other declines.

The expenses of the state were \$109.2 billion, an increase of \$12 billion or 12.3 percent. The expense fluctuations in governmental activities are largely attributable to the health and human services function and public safety function, due to increased funding for hurricane disaster relief, Medicaid, nutrition assistance and programs funded by ARRA. In the business-type activities, unemployment benefit payments increased \$3.4 billion. Colleges and universities expenses reported increases of \$1.5 billion.

As a result of expenses exceeding revenues, the state's total net assets decreased by \$10.5 billion, a decrease of \$12.6 billion from the previous year's increase of \$2.1 billion. Revenues and expenses of the state's governmental and business-type activities are detailed on the following page.

Further discussion of results for changes in the state's financial condition follows in the analysis of the state's funds. The state's two largest revenue sources changed in opposite directions. The largest source, taxes, declined, mostly due to lower natural gas and oil production taxes. The second largest source, federal funds, however, reported large increases for Medicaid and public assistance programs. The largest benefactor was in the health and human services function.

## Changes in Net Assets

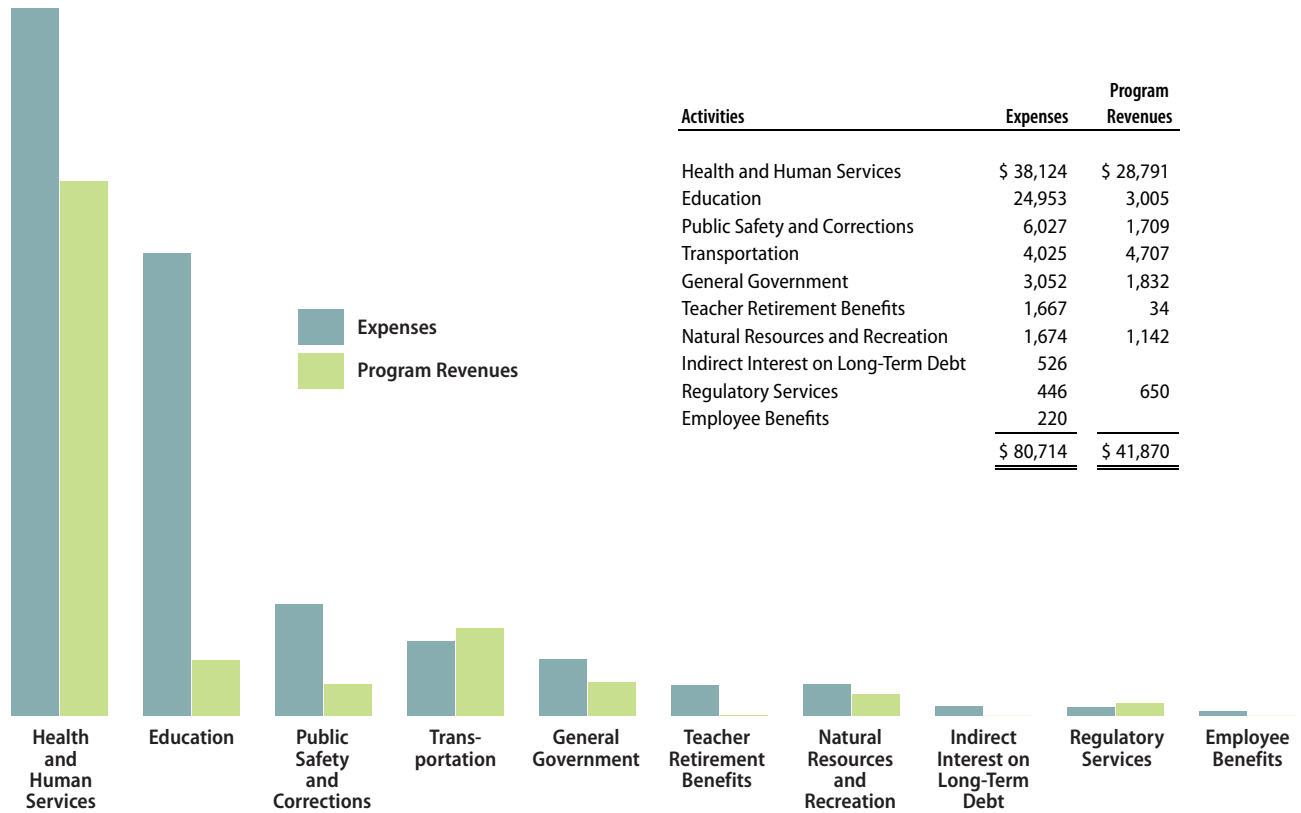
For the Fiscal Years Ended August 31, 2009 and 2008 (Amounts in Thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2009	2008	2009	2008	2009	2008
<b>REVENUES</b>						
Program Revenues:						
Charges for Services	\$ 6,838,996	\$ 7,239,392	\$ 14,248,537	\$ 13,658,706	\$ 21,087,533	\$ 20,898,098
Operating Grants and Contributions	32,410,929	25,900,072	3,613,083	4,808,580	36,024,012	30,708,652
Capital Grants and Contributions	2,619,631	2,585,507	95,889	245,962	2,715,520	2,831,469
Total Program Revenues	<u>41,869,556</u>	<u>35,724,971</u>	<u>17,957,509</u>	<u>18,713,248</u>	<u>59,827,065</u>	<u>54,438,219</u>
General Revenues:						
Taxes	35,928,793	41,419,231			35,928,793	41,419,231
Unrestricted Investment Earnings	178,470	1,041,840	129,445	190,974	307,915	1,232,814
Settlement of Claims	555,626	555,476	14,691	6	570,317	555,482
Gain on Sale of Capital Assets			609	270	609	270
Other General Revenues	1,769,051	1,392,565	156,903	270,786	1,925,954	1,663,351
Total General Revenues	<u>38,431,940</u>	<u>44,409,112</u>	<u>301,648</u>	<u>462,036</u>	<u>38,733,588</u>	<u>44,871,148</u>
Total Revenues	<u>80,301,496</u>	<u>80,134,083</u>	<u>18,259,157</u>	<u>19,175,284</u>	<u>98,560,653</u>	<u>99,309,367</u>
<b>EXPENSES</b>						
General Government	3,052,177	2,659,822	180,543	177,012	3,232,720	2,836,834
Education	24,952,375	24,986,076	20,135,452	18,619,716	45,087,827	43,605,792
Employee Benefits	220,272	86,195			220,272	86,195
Teacher Retirement Benefits	1,667,325	1,761,759			1,667,325	1,761,759
Health and Human Services	38,124,180	32,426,046	4,908,112	1,467,185	43,032,292	33,893,231
Public Safety and Corrections	6,026,868	5,020,897	83,498	80,607	6,110,366	5,101,504
Transportation	4,025,226	4,478,109	220,881	164,280	4,246,107	4,642,389
Natural Resources and Recreation	1,673,915	1,451,450	304,577	247,018	1,978,492	1,698,468
Regulatory Services	445,938	398,885			445,938	398,885
Indirect Interest on Long-Term Debt	525,648	578,059			525,648	578,059
Lottery			2,680,273	2,634,446	2,680,273	2,634,446
Total Expenses	<u>80,713,924</u>	<u>73,847,298</u>	<u>28,513,336</u>	<u>23,390,264</u>	<u>109,227,260</u>	<u>97,237,562</u>
Excess (Deficiency) Before Contributions, Special Items and Transfers	<u>(412,428)</u>	<u>6,286,785</u>	<u>(10,254,179)</u>	<u>(4,214,980)</u>	<u>(10,666,607)</u>	<u>2,071,805</u>
Capital Contributions	1,554	8,653			1,554	8,653
Contributions to Permanent and Term Endowments			120,404	167,692	120,404	167,692
Special Items				(150,026)		(150,026)
Transfers	<u>(4,268,014)</u>	<u>(3,909,529)</u>	<u>4,268,014</u>	<u>3,909,529</u>		
Change in Net Assets	<u>(4,678,888)</u>	<u>2,385,909</u>	<u>(5,865,761)</u>	<u>(287,785)</u>	<u>(10,544,649)</u>	<u>2,098,124</u>
Net Assets, Beginning Balance	100,671,188	98,350,104	42,152,308	42,898,608	142,823,496	141,248,712
Restatements	<u>(130,294)</u>	<u>(64,825)</u>	<u>(1,268,709)</u>	<u>(458,515)</u>	<u>(1,399,003)</u>	<u>(523,340)</u>
Net Assets, Beginning Balance, as Restated	<u>100,540,894</u>	<u>98,285,279</u>	<u>40,883,599</u>	<u>42,440,093</u>	<u>141,424,493</u>	<u>140,725,372</u>
Net Assets, Ending Balance	<u>\$ 95,862,006</u>	<u>\$ 100,671,188</u>	<u>\$ 35,017,838</u>	<u>\$ 42,152,308</u>	<u>\$ 130,879,844</u>	<u>\$ 142,823,496</u>



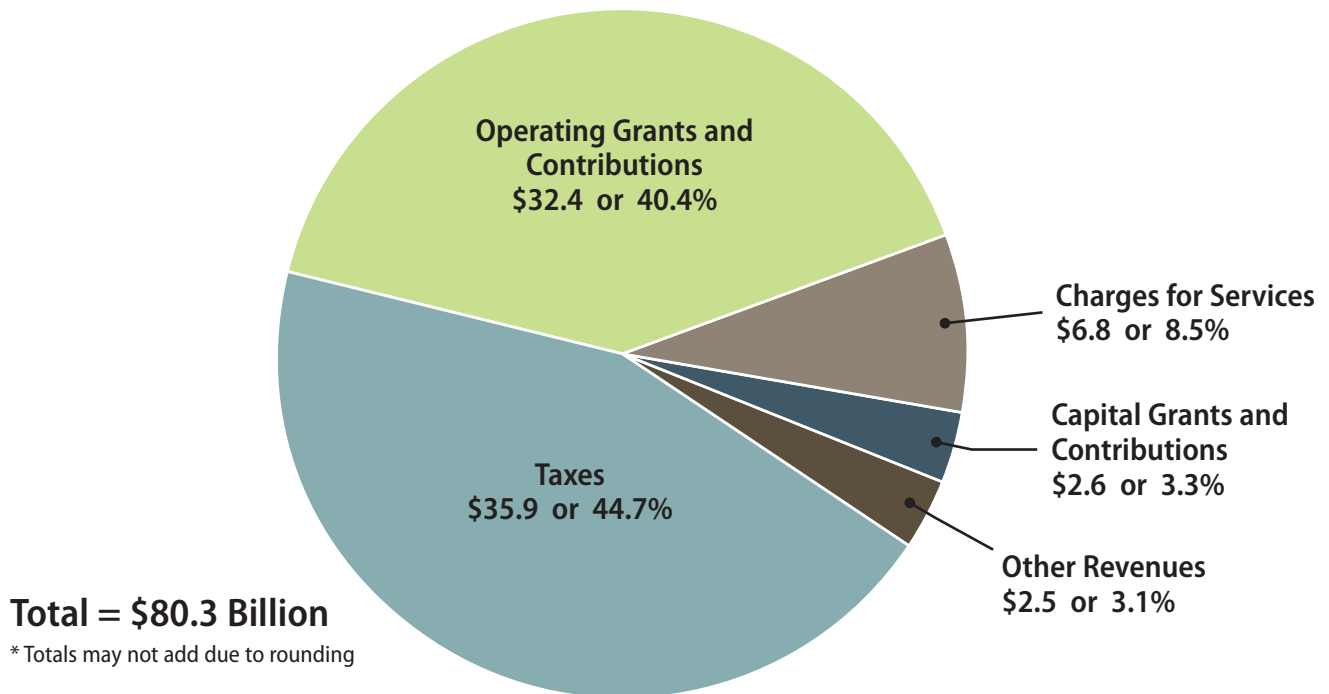
## Expenses and Program Revenues: Governmental Activities

For the Fiscal Year Ended August 31, 2009 (In Millions)



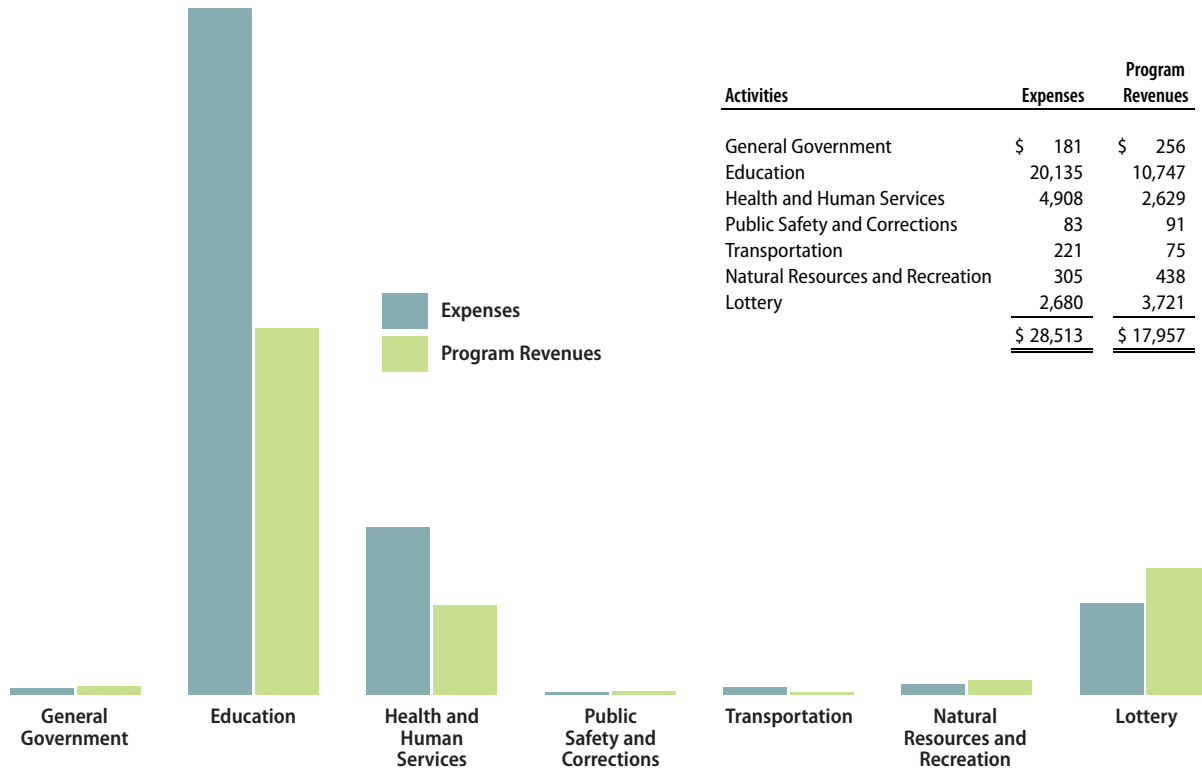
## Revenue by Source: Governmental Activities

For the Fiscal Year Ended August 31, 2009 (In Billions)\*



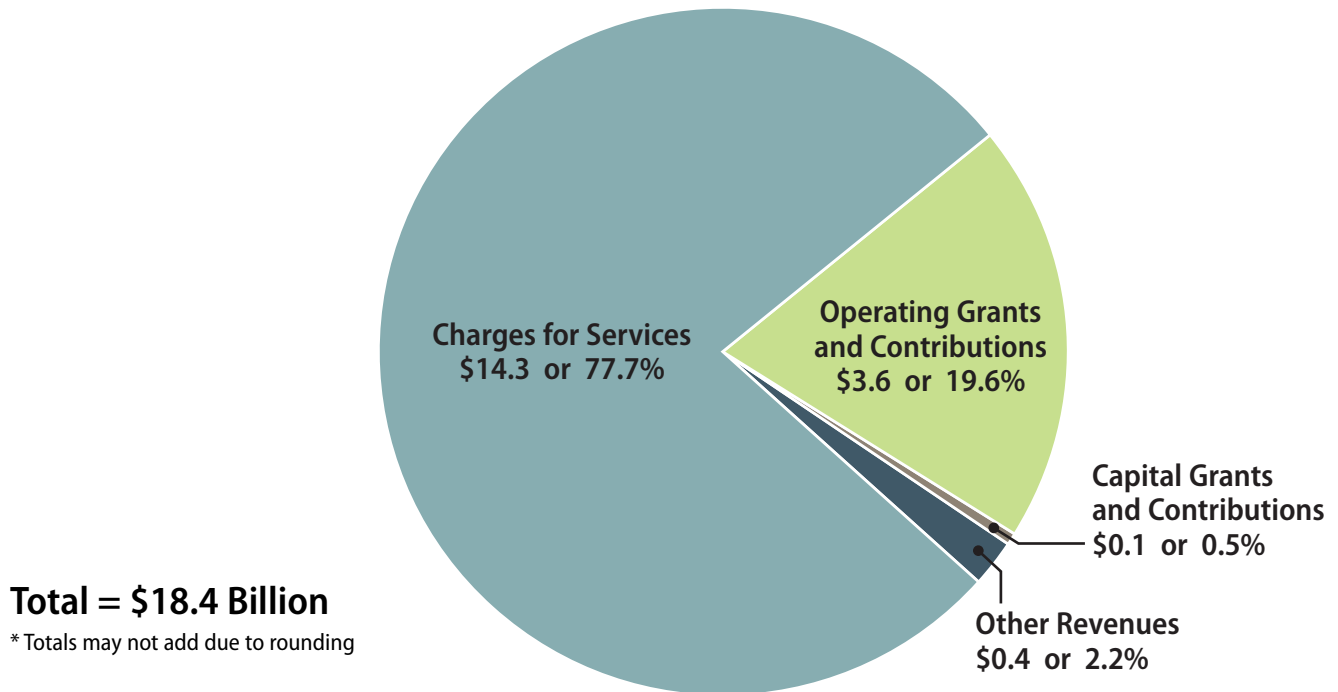
## Expenses and Program Revenues: Business-Type Activities

For the Fiscal Year Ended August 31, 2009 (In Millions)



## Revenue by Source: Business-Type Activities

For the Fiscal Year Ended August 31, 2009 (In Billions)\*



## Governmental Activities

The governmental activities program revenue is \$41.9 billion, including charges for services of \$6.8 billion, operating grants and contributions of \$32.4 billion and \$2.6 billion reported in capital grants and contributions. The largest increase, \$6.5 billion, was for operating grants and services, which includes revenues from federal funds. The largest changes in general revenue sources were attributable to taxes where there were decreases in revenues from all tax categories except motor fuels and tobacco. The largest tax loss was from reductions in natural gas and oil production tax collections.

Governmental activities expenses were \$80.7 billion. All functions of governmental activities in the government-

wide statement of activities have a net cost, except transportation and regulatory services functions that report slight surpluses. Education and health and human services functions together account for 78.1 percent of governmental activities expenses and 80.5 percent of the net cost. The tax collections of the state provide the primary source of funding, which added to program revenues, support payment for the governmental services.

## Business-Type Activities

Business-type activities generated program revenue of \$18 billion, including charges for services of \$14.2 billion, operating grants and contributions of \$3.6 billion and \$95.9 million reported in capital grants and contributions. The total expenses for business-type activities were \$28.5 billion. There was a total net loss from the government's business-type activities of \$5.9 billion in comparison to the prior year's net loss of \$287.5 million. The largest change occurred in the health and human services function, where there was an increase in unemployment benefit payments of \$3.4 billion, due to increases in benefit payments, addition of federal extended benefits and a rising unemployment rate.

## Financial Analysis of the State's Funds

### Governmental Funds

As of Aug. 31, 2009, governmental funds reported fund balances of \$40.2 billion. Of this total amount, \$11.3 billion constitutes unreserved fund balances and \$29 billion reserved fund balance. The general fund reported a positive \$5.6 billion unreserved balance.

### General Fund

The fund balance for the general fund as of Aug. 31, 2009, was \$9 billion, a decrease of \$1.7 billion from fiscal 2008. Contributing to the lower balance were decreased tax collections and the spending of prior year surplus balances. A decrease in oil and natural gas taxes of \$3.7 billion was the largest decline among taxes. Increases in federal revenues of almost \$7 billion supported increases of \$5.6

### Net Cost (Income) of the State's Governmental Activities

For the Fiscal Year Ended August 31, 2009  
(Amounts in Thousands)

	Total Cost of Services	Net Cost (Income) of Services
General Government	\$ 3,052,177	\$ 1,220,583
Education	24,952,375	21,947,784
Employee Benefits	220,272	220,163
Teacher Retirement Benefits	1,667,325	1,633,701
Health and Human Services	38,124,180	9,332,947
Public Safety and Corrections	6,026,868	4,318,099
Transportation	4,025,226	(681,947)
Natural Resources and Recreation	1,673,915	531,469
Regulatory Services	445,938	(204,079)
Indirect Interest on Long-Term Debt	525,648	525,648
Total	<u>\$ 80,713,924</u>	<u>\$ 38,844,368</u>

### Net Cost (Income) of the State's Business-Type Activities

For the Fiscal Year Ended August 31, 2009  
(Amounts in Thousands)

	Total Cost of Services	Net Cost (Income) of Services
General Government	\$ 180,543	\$ (75,725)
Education	20,135,452	9,388,006
Health and Human Services	4,908,112	2,279,023
Public Safety and Corrections	83,498	(6,971)
Transportation	220,881	146,056
Natural Resources and Recreation	304,577	(133,838)
Lottery	2,680,273	(1,040,724)
Total	<u>\$ 28,513,336</u>	<u>\$ 10,555,827</u>

billion in health and human services. There were increases for supplemental nutrition assistance programs, children's health insurance programs, Medicare increases and other needs assistance programs. Additional federal funds were also directed to the state after Hurricanes Ike, Dolly and Gustav.

### **State Highway Fund**

The fund balance for the state highway fund as of Aug. 31, 2009, was \$139.4 million, a decrease of \$639.1 million from \$778.5 million as of Aug. 31, 2008. Other financing sources decreased by \$1.5 billion from bond issuances and by \$612.6 million in transfers from the Texas mobility fund. With the reduction from these sources, and restrictive use of prior cash balances for only certain regions or projects, construction for highway projects decreased by \$742 million and cash and cash equivalents dropped \$988.9 million.

### **Permanent School Fund**

The fund balance for the permanent school fund (PSF) as of Aug. 31, 2009, totaled \$22.6 billion, a decrease of \$2.6 billion, or 10.4 percent, since Aug. 31, 2008. This decrease was primarily attributable to a loss of \$2.4 billion in interest and investment income and a decrease in oil and gas royalties of \$268.2 million. Value in the fund provided \$716.5 million in transfers to provide funding for public education. A second way the PSF supports the state's public school system is through a Bond Guarantee Program, where the PSF is pledged to guarantee bonds issued by Texas school districts, enhancing their credit rating. As of Aug. 31, 2009, \$50 billion in school district bond issues were guaranteed. The capacity to guarantee bonds is limited by both Internal Revenue Service ruling and state law to two and a half times the cost or market value of the fund, whichever is lower.

### **Proprietary Funds**

Proprietary funds reported net assets of \$35 billion as of Aug. 31, 2009, a decrease of \$7.1 billion from fiscal 2008. Colleges and universities, Texas Water Development Board funds and the Texas Department of Transportation Turnpike Authority are discussed separately. In addition,

the Texas Workforce Commission unemployment trust fund accounts realized a net asset decrease of \$2.1 billion. An increase in benefit payments of \$3.4 billion over the prior year was somewhat supported by an increase in federal funds of \$1.5 billion.

### **Colleges and Universities**

Colleges and universities' net assets as of Aug. 31, 2009, totaled \$31.8 billion, a decrease of \$4.7 billion from Aug. 31, 2008. There was a decline in investment holdings of \$6.3 billion as weak financial conditions increased net interest and investment losses \$2.9 billion from the prior year's negative results. There were also decreases in contributions to the permanent university fund as mineral income decreased and an increase of 18.3 percent in the annual distribution to the available university fund. Permanent university fund land holdings reported as investments were decreased by \$1.2 billion due to restatement to estimated historical cost from estimated fair value.

### **Texas Water Development Board Funds**

The Texas Water Development Board fund's net assets totaled \$2.5 billion as of Aug. 31, 2009, an increase of \$129.9 million from \$2.3 billion as of Aug. 31, 2008. During fiscal 2009, loans and contracts increased \$414.9 million for clean water and drinking water state revolving fund programs, which are provided through federal capitalization grants and for the clean water program only, revenue bond proceeds. The demand for the programs continues to grow supporting the need to issue more debt, which increased \$375.2 million from fiscal year 2008. Funds are primarily used to provide financial assistance to political subdivisions for water development, water quality enhancement and flood control projects.

### **Texas Department of Transportation Turnpike Authority**

Net assets for the Texas Department of Transportation Turnpike Authority totaled \$642.3 million as of Aug. 31, 2009, a decrease of \$115.2 million from Aug. 31, 2008. During fiscal 2009 an increase in toll revenues of \$17.4 million was offset by a \$4.9 million increase in profession-

al engineering services and \$72.1 million in debt related expenses. Completed highway projects or those under construction represent \$2.3 billion or 71.1 percent of the Turnpike Authority's total assets.

## **Fiduciary Funds**

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Fiduciary funds reported \$128.1 billion in net assets as of Aug. 31, 2009, a decrease of \$20 billion from \$148.1 billion in fiscal 2008.

### **Pension and Other Employee Benefit Trust Funds**

Total net assets for pension and other employee benefit trust funds were \$109.4 billion, a decrease of \$18.3 billion from the \$127.7 billion reported in fiscal 2008. The majority of plan assets are held as investments for the pension funds. The overall financial condition of the pension fund retirement plans continued to decline during fiscal 2009 due to the adverse market conditions that affected investment assets. Contributions from all sources increased \$325.4 million from fiscal 2008, while benefit payments increased \$61.4 million. The return for investments for the state's two largest pension systems, the Teacher Retirement System of Texas and the Employees Retirement System of Texas, was a negative 13.1 percent and a negative 6.6 percent, respectively, compared to the previous year's negative return percents of 4.5 and 4.6 percent.

### **External Investment Trust Fund**

The external investment trust fund reported total net assets of \$16.3 billion in fiscal 2009, a decrease of \$1.1 billion from the \$17.4 billion reported in fiscal 2008. A decrease of \$2 billion in interest and investment income is due to lower interest rates and withdrawal of balances by local governments as their surplus balances declined and local needs had to be met. The Texas government investment pool trust fund is the only external investment trust fund.

## **Private-Purpose Trust Funds**

Total net assets for private-purpose trust funds were \$2.3 billion in fiscal 2009, a decrease of \$718.6 million or 23.6 percent from fiscal 2008. Decreases to net assets were due to a combination of factors including lower rates of return on investments, transitioning to other investment agents and the depletion of the Department of Insurance's catastrophe fund due to Hurricane Ike.

## **Budgetary Highlights**

### **Variances for the General Fund**

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The differences from original and final revenue budgets are due to both economic and legislative reasons. Actual results for revenues were \$1.8 billion below the final budget number. The most negative revenue variance occurred with tax revenues, showing a \$1.5 billion difference, actual over budget. All tax categories except motor fuels and tobacco taxes declined from prior year collections. Oil and natural gas production taxes fell more than others as energy reductions nationwide reversed positive results from the prior year increase.

Actual results for expenditures were \$6.9 billion more than final budget revision. Significant revisions were made to original budget amounts increasing expenditures in major functions for education, health and human services and public safety and corrections. Actual expenditures for education exceeded final budget due to payment for the foundation school fund amounts that would normally be paid in the subsequent fiscal year. Increases for health and human services are due to increased expenditures from federal funding for hurricane relief, nutrition assistance, children's health insurance and Medicaid.

## Capital Assets – Net of Depreciation

August 31, 2009 and 2008 (Amounts in Thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2009	2008	2009	2008	2009	2008
Land and Land Improvements	\$ 8,125,334	\$ 7,821,911	\$ 1,477,108	\$ 1,433,552	\$ 9,602,442	\$ 9,255,463
Infrastructure	54,194,424	51,421,225	2,341,644	2,319,281	56,536,068	53,740,506
Construction in Progress	4,206,962	4,654,259	2,639,472	1,950,376	6,846,434	6,604,635
Buildings and Building Improvements	2,436,851	2,457,155	10,078,703	9,467,729	12,515,554	11,924,884
Facilities and Other Improvements	83,252	84,138	767,142	650,362	850,394	734,500
Furniture and Equipment	237,375	239,353	1,423,110	1,347,891	1,660,485	1,587,244
Vehicles, Boats and Aircraft	402,586	415,266	66,582	65,306	469,168	480,572
Other Capital Assets	260,191	233,581	839,512	807,078	1,099,703	1,040,659
Total Capital Assets	<u>\$ 69,946,975</u>	<u>\$ 67,326,888</u>	<u>\$ 19,633,273</u>	<u>\$ 18,041,575</u>	<u>\$ 89,580,248</u>	<u>\$ 85,368,463</u>

## Capital Assets and Debt Administration

### Capital Assets

As of Aug. 31, 2009, the state had \$89.6 billion in net capital assets, of which \$56.5 billion was infrastructure, primarily highway construction projects. This total represents an increase of \$4.2 billion in net capital assets or 4.9 percent from fiscal 2008. The largest net increase was for additions to infrastructure, where the Texas Department of Transportation added \$2.8 billion to the state's highway system. Colleges and universities also added \$614.6 million to buildings and building improvements. There also was significant new construction with the Texas Department of Transportation having \$3.9 billion in construction for highway projects and universities, primarily the University of Texas and Texas A&M Systems, having \$2.6 billion in construction in progress as of Aug. 31, 2009. The state's capital assets include land and land improvements, infrastructure, construction in progress, buildings and building improvements, facilities and other improvements, furniture and equipment, vehicles, boats and aircraft and other capital assets. Details of capital assets are shown in Note 2.

### Infrastructure Assets

The value of the state's infrastructure assets is included in the governmental activities column of the government-wide financial statements.

The state accounts for its system of roads and highways using the modified approach allowed by GASB

Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. The Texas Department of Transportation (TxDOT) has developed a system of management, the Texas Maintenance Assessment Program (TxMAP), which is designed to maintain the service delivery potential of the state's roads and highways to near perpetuity.

The state's policy is to maintain its interstate highways at a condition level of 80 percent, its non-interstate highways (farm-to-market and other road systems) at a condition level of 75 percent and 80 percent for the Central Texas Turnpike System. The condition assessment results for fiscal 2009 reflect condition levels of 81.4 percent (83.7 percent in fiscal 2008) for the interstate system, 76.5 percent (79 percent for fiscal 2008) for the non-interstate system and 90.5 percent for the Central Texas Turnpike System (91.7 percent for fiscal 2008).

In fiscal 2009, the estimated maintenance expenditures that will be required to maintain the highway system at or above the adopted condition levels for interstate highways were \$534.3 million, \$2.7 billion for the non-interstate system and \$9.2 million for the Central Texas Turnpike System. Actual expenditures were \$326.3 million for the interstate system, \$1.5 billion for the non-interstate system and \$7.3 million for the Central Texas Turnpike System. Additional information on the state's road and highway infrastructure is presented in the financial section's required supplementary information other than MD&A.

## Outstanding Bonded Debt

August 31, 2009 and 2008 (Amounts in Thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2009	2008	2009	2008	2009	2008
General Obligation Bonds Payable	\$ 9,745,220	\$ 8,060,709	\$ 2,927,153	\$ 2,707,763	\$ 12,672,373	\$ 10,768,472
Revenue Bonds Payable	3,287,121	3,444,984	15,487,970	13,369,971	18,775,091	16,814,955
Total Bonds Payable	<u>\$ 13,032,341</u>	<u>\$ 11,505,693</u>	<u>\$ 18,415,123</u>	<u>\$ 16,077,734</u>	<u>\$ 31,447,464</u>	<u>\$ 27,583,427</u>

### Debt Administration

The state of Texas issues both general obligation bonds and revenue bonds. Each series of revenue bonds is backed by the pledged revenue source and restricted funds specified in the bond resolution. Most revenue bonds are designed to be self-supporting from a primary revenue source related to the program financed.

The state's general obligation bond issues are rated Aa1 by Moody's Investors Service and AA+ by Standard & Poor's Corporation as of August 2009. During fiscal 2009, Texas' state agencies and universities issued \$5.6 billion in state bonds to finance new construction, transportation, housing, water conservation and treatment and other projects. General obligation debt accounted for \$2.6 billion of state bonds issued in fiscal 2009. This debt, which can only be authorized by a constitutional amendment, carries the full faith and credit of the state. The remaining \$3 billion is due to new issuances of revenue bonds, which are serviced by the revenue flows of individual entity projects. Bonds retired during the year were composed of \$523.1 million in general obligation bonds and \$622.1 million in revenue bonds. Also, \$174.6 million in general obligation bonds and \$408.7 million in revenue bonds were refunded. The total outstanding general obligation debt of the state after new issuances, retirements and refundings as of Aug. 31, 2009, was \$12.7 billion. This represents an increase of \$1.9 billion or 17.7 percent from fiscal 2008. An additional \$12.1 billion of general obligation bonds have been authorized but have not been issued. Total revenue bonds outstanding were \$18.8 billion, which is an increase of \$2 billion or 11.7 percent from fiscal 2008. The net increase of \$1.2 billion for general obligation bonds are from issuances for the Texas mobility fund to finance highway projects in

the state. The net increase of \$1.9 billion for revenue bonds were from issuances of the state's universities for campus improvements or associated with refundings to take advantage of lower interest rates. Note 5 shows the details on the state's long-term liabilities and Note 6 provides detail information on the state's bond indebtedness.

### Economic Condition and Outlook

Texas joined the nation in employment losses in 2009, losing 2.6 percent of its jobs, compared to 3.5 percent for the nation. During the period from November 2008 to November 2009, Texas' nonfarm employment suffered a decline of 271,700 jobs. Texas had the lowest rate of unemployment among the ten largest states, with 8 percent in November 2009 compared to the nation's unemployment rate of 10 percent.

Texas' real gross domestic product in 2009 fell by 1.7 percent. This was the first decline in inflation-adjusted economic production since the mid-1980s. Recession throughout much of the world combined with a stronger dollar to hurt both domestic markets and international export potential. As the nation's largest exporting state, an estimated 19 percent drop in exports during 2009 was a major drag on the state's economy. Weaknesses in energy, construction and goods manufacturing contributed to the decline.

Even with the noted losses, however, some Texas industries expanded in 2009. Education and health services added 60,000 jobs and grew by 4.6 percent, due primarily to increased outpatient health care and social assistance services. Professional and civic services and state and local government sectors also expanded in response to new service needs during the slow economy.



There are signs of improvement, although the state's leading economic indicators expect economic growth to be slow to slightly negative for the first half of the upcoming year.

Energy prices are substantially lower than the previous three years providing state consumers some relief from higher household expenses due to energy costs and the national recession. The single-family housing market is still weak due to declining property values. Weak credit markets further undermined the housing market by reducing the volume of home sales and lower demand resulted in a decline of housing starts. Growth in sales tax collections, an indicator of taxable retail sales activity, was weak for most of 2009, in contrast to three years of strong growth, from 2006 through 2008.

Although a weakened economy is foreseen for the immediate months, positive signs include an increase in new business incorporations, an upward trend in retail sales growth, rapidly increasing stock values of Texas corporations and higher forecasted growth in the national

economy. Consumer confidence is also showing positive trends. Negative signs are found in housing permits being substantially lower than 2007 and 2008 levels and the average manufacturing hours per workweek, while increasing, falling below last year's.

With the current economic instability and changes occurring both in Texas and the nation, predictions are for a weak Texas economy for the start of 2010, but trending rapidly toward positive territory or growth.

## **Contacting the State's Financial Management**

This financial report is designed to provide the state's citizens, taxpayers, customers, investors and creditors with a general overview of the state's finances and to demonstrate the state's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Financial Reporting section of the Texas Comptroller of Public Accounts at 111 E. 17th Street, Austin, Texas 78774.





## Section Two (continued)

# Basic Financial Statements

## Statement of Net Assets

August 31, 2009 (Amounts in Thousands)

	Primary Government			
	Governmental Activities	Business-Type Activities*	Total	Component Units
<b>ASSETS</b>				
Current Assets:				
Cash and Cash Equivalents	\$ 20,460,254	\$ 4,249,788	\$ 24,710,042	\$ 585,092
Short-Term Investments	581,985	1,318,156	1,900,141	807,796
Securities Lending Collateral	1,972,479	796,658	2,769,137	
Receivables:				
Taxes (Note 24)	2,321,689		2,321,689	
Federal	2,457,575	543,732	3,001,307	65,273
Other Intergovernmental	1,411,685	35,799	1,447,484	8,975
Accounts	819,326	589,266	1,408,592	105,997
Interest and Dividends	115,350	131,146	246,496	7,326
Gifts		134,692	134,692	
Investment Trades	5,336	169,840	175,176	
Other	46,288	1,015,763	1,062,051	166
From Fiduciary Funds	18,333		18,333	
Due From Primary Government (Note 12)				426
Due From Component Units (Note 12)		45	45	
Inventories	315,696	128,967	444,663	926
Prepaid Items	211	126,940	127,151	1,096
Loans and Contracts	87,567	334,864	422,431	9,633
Other Current Assets	47	334,446	334,493	1,569
Restricted:				
Cash and Cash Equivalents	150,019	1,431,711	1,581,730	21,777
Short-Term Investments		795,153	795,153	
Loans and Contracts	55,901	72,913	128,814	2,191
Total Current Assets	<u>30,819,741</u>	<u>12,209,879</u>	<u>43,029,620</u>	<u>1,618,243</u>
Noncurrent Assets:				
Internal Balances (Note 12)	4,845	(4,845)		
Loans and Contracts	832,513	3,901,063	4,733,576	68,300
Investments	22,998,121	4,092,652	27,090,773	9,426
Receivables:				
Taxes (Note 24)	346,919		346,919	
Federal	20,671		20,671	
Gifts		240,205	240,205	
Other	117,316	1,624	118,940	3,191
Restricted:				
Cash and Cash Equivalents		219,370	219,370	202
Short-Term Investments		17,321	17,321	
Investments		23,578,131	23,578,131	265,914
Receivables		198,754	198,754	
Loans and Contracts	810,068	3,362,723	4,172,791	12,580
Other	89,357	9,841	99,198	
Assets Held in Trust		3,125	3,125	
Net Pension Asset (Note 9)	5,131		5,131	
Deferred Charges	26,836	52,077	78,913	
Other Noncurrent Assets	15,921	46,209	62,130	5,379
Capital Assets: (Note 2)				
Nondepreciable	58,373,107	6,093,474	64,466,581	3,928
Depreciable	26,412,033	25,999,781	52,411,814	101,935
Accumulated Depreciation	(14,838,165)	(12,459,982)	(27,298,147)	(45,801)
Total Noncurrent Assets	<u>95,214,673</u>	<u>55,351,523</u>	<u>150,566,196</u>	<u>425,054</u>
Total Assets	<u>126,034,414</u>	<u>67,561,402</u>	<u>193,595,816</u>	<u>2,043,297</u>

The accompanying notes to the financial statements are an integral part of this statement.

\* Other postemployment benefits are not legally required to be provided by the state of Texas. The Texas Constitution does not allow the Legislature to impose financial obligations for a period longer than two years. See Note 11 for additional details.

## Statement of Net Assets (concluded)

August 31, 2009 (Amounts in Thousands)

	Primary Government			
	Governmental Activities	Business-Type Activities*	Total	Component Units
<b>LIABILITIES</b>				
Current Liabilities:				
Payables:				
Accounts	\$ 4,795,531	\$ 1,359,864	\$ 6,155,395	\$ 144,799
Payroll	650,350	663,685	1,314,035	143
Other Intergovernmental	287,085	15,409	302,494	14
Federal	1,339	34,448	35,787	50,026
Investment Trades	23,327	359,127	382,454	
Interest	353,090	61,072	414,162	2,083
Tax Refunds (Note 24)	1,173,821		1,173,821	
Annuities		12,173	12,173	
To Fiduciary Funds	191,596		191,596	
Internal Balances (Note 12)	815,672	(815,672)		
Due To Primary Government (Note 12)				45
Due To Component Units (Note 12)	426		426	
Unearned Revenue	4,030,800	2,435,022	6,465,822	58,446
Obligations/Reverse Repurchase Agreement	92,415		92,415	
Obligations/Securities Lending	2,081,057	801,356	2,882,413	
Short-Term Debt (Note 4)	300,000		300,000	
Claims and Judgments (Note 5)	55,023	103,843	158,866	
Capital Lease Obligations (Note 5, 7)	1,667	2,408	4,075	164
Employees' Compensable Leave (Note 5)	482,070	309,721	791,791	3,369
Notes and Loans Payable (Note 5)	14,662	1,033,420	1,048,082	37,670
General Obligation Bonds Payable (Note 5, 6)	331,535	151,402	482,937	
Revenue Bonds Payable (Note 5, 6)	175,148	1,905,342	2,080,490	9,540
Pollution Remediation Obligation (Note 5)	46,812	341	47,153	
Liabilities Payable From Restricted Assets (Note 5)		475,623	475,623	
Funds Held for Others		123,911	123,911	432
Other Current Liabilities	309,483	252,528	562,011	41,401
Total Current Liabilities	16,212,909	9,285,023	25,497,932	348,132
Noncurrent Liabilities:				
Claims and Judgments (Note 5)	107,935	51,766	159,701	
Capital Lease Obligations (Note 5, 7)	6,406	10,137	16,543	111
Employees' Compensable Leave (Note 5)	329,914	351,902	681,816	1,993
Notes and Loans Payable (Note 5)	135,553	1,314,394	1,449,947	95,418
General Obligation Bonds Payable (Note 5, 6)	9,413,685	2,775,751	12,189,436	
Revenue Bonds Payable (Note 5, 6)	3,111,973	13,582,628	16,694,601	322,766
Pollution Remediation Obligation (Note 5)	334,819		334,819	
Liabilities Payable From Restricted Assets (Note 5)		3,252,738	3,252,738	72,249
Assets Held for Others		691,328	691,328	
Net Pension Obligation (Note 9)	519,214		519,214	
Net OPEB Obligation (Note 11)		1,060,898	1,060,898	
Other Noncurrent Liabilities		166,999	166,999	231,199
Total Noncurrent Liabilities	13,959,499	23,258,541	37,218,040	723,736
Total Liabilities	30,172,408	32,543,564	62,715,972	1,071,868
<b>NET ASSETS</b>				
Invested in Capital Assets, Net of Related Debt	59,719,286	7,654,750	67,374,036	48,523
Restricted for:				
Education	807,687	2,315,160	3,122,847	84,851
Debt Service	220,794	207,892	428,686	
Capital Projects	284,951	386,555	671,506	
Veterans Land Board Housing Programs		659,010	659,010	
Economic Stabilization	6,734,165		6,734,165	
Funds Held as Permanent Investments:				
Nonexpendable	10,615,859	9,556,352	20,172,211	
Expendable	11,997,785	5,572,988	17,570,773	
Other	2,002,944	45,632	2,048,576	17,414
Unrestricted	3,478,535	8,619,499	12,098,034	820,641
Total Net Assets	\$ 95,862,006	\$ 35,017,838	\$ 130,879,844	\$ 971,429

## Statement of Activities

For the Fiscal Year Ended August 31, 2009 (Amounts in Thousands)

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
PRIMARY GOVERNMENT				
Governmental Activities:				
General Government	\$ 3,052,177	\$ 1,010,388	\$ 821,206	\$
Education	24,952,375	474,249	2,530,342	
Employee Benefits	220,272	109		
Teacher Retirement Benefits	1,667,325	33,624		
Health and Human Services	38,124,180	1,825,395	26,965,706	132
Public Safety and Corrections	6,026,868	354,117	1,354,652	
Transportation	4,025,226	1,920,123	167,551	2,619,499
Natural Resources and Recreation	1,673,915	574,032	568,414	
Regulatory Services	445,938	646,959	3,058	
Interest on General Long-Term Debt	525,648			
Total Governmental Activities	80,713,924	6,838,996	32,410,929	2,619,631
Business-Type Activities:				
General Government	180,543	42,147	214,121	
Education*	20,135,452	9,253,972	1,406,018	87,456
Health and Human Services	4,908,112	1,027,897	1,601,192	
Public Safety and Corrections	83,498	90,469		
Transportation	220,881	66,375	17	8,433
Natural Resources and Recreation	304,577	46,682	391,733	
Lottery	2,680,273	3,720,995	2	
Total Business-Type Activities	28,513,336	14,248,537	3,613,083	95,889
Total Primary Government	\$ 109,227,260	\$ 21,087,533	\$ 36,024,012	\$ 2,715,520
COMPONENT UNITS				
Component Units	\$ 1,871,027	\$ 1,515,317	\$ 298,281	\$
Total Component Units	\$ 1,871,027	\$ 1,515,317	\$ 298,281	\$ 0

General Revenues
Taxes:
Sales and Use
Motor Vehicle and Manufactured Housing
Motor Fuels
Franchise
Oil and Natural Gas Production
Insurance Occupation
Cigarette and Tobacco
Other
Unrestricted Investment Earnings
Settlement of Claims
Gain on Sale of Capital Assets
Other General Revenues
Capital Contributions
Contributions to Permanent and Term Endowments
Transfers - Internal Activities (Note 12)
Total General Revenues, Contributions and Transfers
Change in Net Assets

The accompanying notes to the financial statements are an integral part of this statement.

\* Other postemployment benefits are not legally required to be provided by the state of Texas.

The Texas Constitution does not allow the Legislature to impose financial obligations for a period longer than two years. See Note 11 for additional details.

Net Assets, September 1, 2008  
Restatements (Note 14)  
Net Assets, September 1, 2008, as Restated

Net Assets, August 31, 2009

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			Component Units
Governmental Activities	Business-Type Activities	Total	
\$ (1,220,583)	\$	\$ (1,220,583)	\$
(21,947,784)		(21,947,784)	
(220,163)		(220,163)	
(1,633,701)		(1,633,701)	
(9,332,947)		(9,332,947)	
(4,318,099)		(4,318,099)	
681,947		681,947	
(531,469)		(531,469)	
204,079		204,079	
(525,648)		(525,648)	
<u>(38,844,368)</u>	<u>0</u>	<u>(38,844,368)</u>	<u>0</u>
	75,725	75,725	
	(9,388,006)	(9,388,006)	
	(2,279,023)	(2,279,023)	
	6,971	6,971	
	(146,056)	(146,056)	
	133,838	133,838	
	1,040,724	1,040,724	
<u>0</u>	<u>(10,555,827)</u>	<u>(10,555,827)</u>	<u>0</u>
<u>(38,844,368)</u>	<u>(10,555,827)</u>	<u>(49,400,195)</u>	<u>0</u>
			(57,429)
<u>0</u>	<u>0</u>	<u>0</u>	<u>(57,429)</u>
21,026,034		21,026,034	
2,568,599		2,568,599	
3,155,941		3,155,941	
3,303,170		3,303,170	
1,335,296		1,335,296	
1,295,330		1,295,330	
1,564,061		1,564,061	
1,680,362		1,680,362	
178,470	129,445	307,915	34,918
555,626	14,691	570,317	
	609	609	1,707
1,769,051	156,903	1,925,954	19,937
1,554		1,554	
	120,404	120,404	
<u>(4,268,014)</u>	<u>4,268,014</u>		
<u>34,165,480</u>	<u>4,690,066</u>	<u>38,855,546</u>	<u>56,562</u>
<u>(4,678,888)</u>	<u>(5,865,761)</u>	<u>(10,544,649)</u>	<u>(867)</u>
100,671,188	42,152,308	142,823,496	959,017
(130,294)	(1,268,709)	(1,399,003)	13,279
<u>100,540,894</u>	<u>40,883,599</u>	<u>141,424,493</u>	<u>972,296</u>
<u>\$ 95,862,006</u>	<u>\$ 35,017,838</u>	<u>\$ 130,879,844</u>	<u>\$ 971,429</u>



**Balance Sheet – Governmental Funds**

August 31, 2009 (Amounts in Thousands)

	General	State Highway Fund	Permanent School Fund	Nonmajor Funds	Totals
<b>ASSETS</b>					
Cash and Cash Equivalents	\$ 9,771,725	\$ 3,635,053	\$ 1,039,045	\$ 6,000,082	\$ 20,445,905
Short-Term Investments	97,205		49,206	223,902	370,313
Securities Lending Collateral			1,828,949		1,828,949
Receivables:					
Accounts	589,442	30,304	76,415	8,951	705,112
Taxes (Note 24)	2,668,608				2,668,608
Federal	2,120,249	357,018		777	2,478,044
Investment Trades	21		1,102	2,295	3,418
Other Intergovernmental	1,214,133	197,552			1,411,685
Interest and Dividends	12,666	10,909	71,799	16,667	112,041
Other (Note 1)	163,604				163,604
Due From Other Funds (Note 12)	43,251	222,283	122	83,548	349,204
Interfund Receivable (Note 12)	12,701				12,701
Inventories	197,632	117,620		444	315,696
Prepaid Items	199		8	4	211
Investments	8,845		21,542,762	937,121	22,488,728
Loans and Contracts	160,292	267,679	798	491,311	920,080
Other Assets		7,918		8,050	15,968
Restricted:					
Cash and Cash Equivalents	5,074			144,945	150,019
Loans and Contracts	182,748			683,221	865,969
Other Assets	663			88,694	89,357
Total Assets	<u>\$ 17,249,058</u>	<u>\$ 4,846,336</u>	<u>\$ 24,610,206</u>	<u>\$ 8,690,012</u>	<u>\$ 55,395,612</u>
<b>LIABILITIES AND FUND BALANCES</b>					
Liabilities:					
Payables:					
Accounts	\$ 3,361,612	\$ 828,282	\$ 7,223	\$ 103,663	\$ 4,300,780
Investment Trades	36		15,285	3,655	18,976
Other Intergovernmental	287,085				287,085
Tax Refunds (Note 24)	1,173,821				1,173,821
Payroll	536,898	105,092	1,430	6,930	650,350
Federal	1,335			4	1,339
Interest	68,325		111		68,436
Due To Other Funds (Note 12)	1,234,228	4,951	395	27,829	1,267,403
Due To Component Units (Note 12)	426				426
Interfund Payable (Note 12)	153	29		5,328	5,510
Deferred Revenues	1,365,375	3,323,990	50,704	454	4,740,523
Obligations/Reverse Repurchase Agreements	92,415				92,415
Obligations/Securities Lending			1,937,542		1,937,542
Other Liabilities	160,937	144,552		3,993	309,482
Short-Term Debt (Note 4)		300,000			300,000
Total Liabilities	<u>8,282,646</u>	<u>4,706,896</u>	<u>2,012,690</u>	<u>151,856</u>	<u>15,154,088</u>
Fund Balances/(Deficits):					
Reserved (Note 13)	3,380,037	586,939	22,597,516	2,401,523	28,966,015
Unreserved (Note 13):					
General	5,586,375				5,586,375
Special Revenue		(447,499)		5,770,906	5,323,407
Capital Projects				(111,234)	(111,234)
Permanent				476,961	476,961
Total Fund Balances	<u>8,966,412</u>	<u>139,440</u>	<u>22,597,516</u>	<u>8,538,156</u>	<u>40,241,524</u>
Total Liabilities and Fund Balances	<u>\$ 17,249,058</u>	<u>\$ 4,846,336</u>	<u>\$ 24,610,206</u>	<u>\$ 8,690,012</u>	<u>\$ 55,395,612</u>

The accompanying notes to the financial statements are an integral part of this statement.

# Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets

August 31, 2009 (Amounts in Thousands)

**Total Fund Balance – Governmental Funds** \$ 40,241,524

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets less accumulated depreciation are included in the statement of net assets (Note 2):

Capital Assets - Nondepreciable	\$ 58,373,107	
Capital Assets - Depreciable	26,412,033	
Accumulated Depreciation	<u>(14,838,165)</u>	
		69,946,975

Some of the state's assets are not current available resources and are not reported in the funds.

Net Pension Assets (Note 9)	5,131	
Deferred charges for unamortized bond issuance cost	<u>26,836</u>	
		31,967

Some of the state's revenues will be collected after year-end but are not available soon enough to pay current year's expenditures and therefore are deferred in the funds.

710,126

Long-term liabilities applicable to the state's governmental activities are not due and payable in the current period and accordingly are not reported in the funds. These liabilities, however, are included in the statement of net assets. (Note 5 and Note 9)

Claims and Judgments	(162,958)	
Capital Lease Obligations	(8,073)	
Employees' Compensable Leave	(811,984)	
Notes and Loans Payable	(150,215)	
General Obligation Bonds Payable	(9,745,220)	
Revenue Bonds Payable	(3,287,121)	
Pollution Remediation Obligation	(381,631)	
Net Pension Obligation	<u>(519,214)</u>	
		(15,066,416) *

\* current portion = \$1,106,917 and noncurrent portion = \$13,959,499

Interest payable applicable to the state's governmental activities are not due and payable in the current period and accordingly are not reported in the funds. These liabilities, however, are included in the statement of net assets.

(284,654)

The internal service fund is used by management to charge the costs of employees life, accident and health insurance benefits fund to individual funds. Since governmental activities are the predominant activities of internal service funds, the assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.

282,484

**Net Assets of Governmental Activities** \$ 95,862,006

# Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds

For the Fiscal Year Ended August 31, 2009 (Amounts in Thousands)

	General	State Highway Fund	Permanent School Fund	Nonmajor Funds	Totals
<b>REVENUES</b>					
Taxes	\$ 35,142,698	\$ 39,631	\$	\$ 2,471,800	\$ 37,654,129
Federal	32,848,427	2,820,154		30,540	35,699,121
Licenses, Fees and Permits	2,528,391	1,286,990		617,324	4,432,705
Interest and Other Investment Income (Loss)	321,190	102,635	(2,429,779)	48,931	(1,957,023)
Land Income	19,047	14,161	356,282	478	389,968
Settlement of Claims	554,004	1,531			555,535
Sales of Goods and Services	1,597,202	250,644	91,251	22,648	1,961,745
Other	3,132,589	4,506	2,596	52,033	3,191,724
Total Revenues	<u>76,143,548</u>	<u>4,520,252</u>	<u>(1,979,650)</u>	<u>3,243,754</u>	<u>81,927,904</u>
<b>EXPENDITURES</b>					
Current:					
General Government	2,777,816	11,622		235,178	3,024,616
Education	23,387,494	50,000	130,660	1,372,888	24,941,042
Employee Benefits	1,503			11,316	12,819
Teacher Retirement Benefits	1,728,959				1,728,959
Health and Human Services	37,897,642	60,163		30,089	37,987,894
Public Safety and Corrections	5,082,785	625,048		94,697	5,802,530
Transportation	4,630	3,376,214		18,267	3,399,111
Natural Resources and Recreation	1,524,645			81,607	1,606,252
Regulatory Services	334,495			99,832	434,327
Capital Outlay	133,481	3,443,634	33	161,181	3,738,329
Debt Service:					
Principal	1,566	205		594,035	595,806
Interest	584	66,941		445,304	512,829
Other Financing Fees		3,138		11,628	14,766
Total Expenditures	<u>72,875,600</u>	<u>7,636,965</u>	<u>130,693</u>	<u>3,156,022</u>	<u>83,799,280</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>3,267,948</u>	<u>(3,116,713)</u>	<u>(2,110,343)</u>	<u>87,732</u>	<u>(1,871,376)</u>
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfer In (Note 12)	4,147,551	2,875,959		2,713,445	9,736,955
Transfer Out (Note 12)	(9,311,339)	(433,462)	(716,534)	(3,571,625)	(14,032,960)
Bonds and Notes Issued		16,000		1,924,575	1,940,575
Bonds Issued for Refunding				270,920	270,920
Premiums on Bonds Issued				32,634	32,634
Payment to Escrow for Refunding				(308,736)	(308,736)
Sale of Capital Assets	11,060	5,149			16,209
Increase in Obligations Under Capital Leases	16				16
Insurance Recoveries	3,476	14,036		301	17,813
Total Other Financing Sources (Uses)	<u>(5,149,236)</u>	<u>2,477,682</u>	<u>(716,534)</u>	<u>1,061,514</u>	<u>(2,326,574)</u>
Net Change in Fund Balances	<u>(1,881,288)</u>	<u>(639,031)</u>	<u>(2,826,877)</u>	<u>1,149,246</u>	<u>(4,197,950)</u>
Fund Balances, September 1, 2008	10,655,166	778,471	25,227,185	7,344,259	44,005,081
Restatements (Note 14)	192,534		197,208	44,651	434,393
Fund Balances, September 1, 2008, as Restated	<u>10,847,700</u>	<u>778,471</u>	<u>25,424,393</u>	<u>7,388,910</u>	<u>44,439,474</u>
Fund Balances, August 31, 2009	<u>\$ 8,966,412</u>	<u>\$ 139,440</u>	<u>\$ 22,597,516</u>	<u>\$ 8,538,156</u>	<u>\$ 40,241,524</u>

The accompanying notes to the financial statements are an integral part of this statement.

# Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities

For the Fiscal Year Ended August 31, 2009 (Amounts in Thousands)

**Net Change in Fund Balances** \$ (4,197,950)

Governmental funds report capital outlays as expenditures. In the statement of activities, however, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. The amount by which capital outlay exceeds depreciation in the current period is:

Capital Outlay	\$ 3,738,329	
Depreciation Expense (Note 2)	(899,672)	
		2,838,657

The effect of various miscellaneous transactions involving capital assets (i.e., sales and trade-ins) is to decrease net assets.		(16,209)
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Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		(3,216,981)
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The internal service fund is used by management to charge the costs of the employees life, accident and health insurance benefits fund to individual funds. The adjustments for internal service fund "close" the fund by allocating these amounts to participating governmental activities.		(102,025)
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Bond proceeds provide current financial resources to governmental funds, but increase long-term liabilities in the statement of net assets. Repayment of long-term debt consumes current financial resources and is an expenditure in the governmental funds, but reduces long-term liabilities in the statement of net assets.

Bonds and Notes Issued	(2,211,495)	
Premiums on Bond Proceeds	(32,634)	
Increase in Obligations Under Capital Leases	(16)	
Repayment of Bond and Capital Lease Principal	904,542	
		(1,339,603)

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		1,355,162
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Resource flows between fiduciary funds and governmental funds are converted to revenues or expenses on the statement of activities. Transfers of capital assets have not been reported in the governmental funds.

Capital Asset Transfers	61	
Change in Transfers	27,930	
Increase in Revenues	33,865	
Increase in Expenses	(61,795)	
		61

**Change in Net Assets of Governmental Activities** \$ (4,678,888)

# Statement of Net Assets Proprietary Funds

August 31, 2009 (Amounts in Thousands)

	Business-Type Activities – Enterprise Funds					Governmental Activities – Internal Service Fund**
	Colleges and Universities*	Texas Water Development Board Funds	Texas Department of Transportation Turnpike Authority	Nonmajor Enterprise Funds	Totals	
<b>ASSETS</b>						
Current Assets:						
Cash and Cash Equivalents	\$ 3,820,232	\$ 127,033	\$	\$ 302,523	\$ 4,249,788	\$ 14,349
Short-Term Investments	398,189	919,967			1,318,156	211,673
Securities Lending Collateral	455,576			341,082	796,658	143,530
Restricted:						
Cash and Cash Equivalents	517,468		351,402	562,841	1,431,711	
Short-Term Investments	498,247		15,316	281,590	795,153	
Loans and Contracts	15			72,898	72,913	
Receivables:						
Federal	447,680	2,780		93,272	543,732	202
Other Intergovernmental	35,799				35,799	
Accounts	413,325	168	2,915	172,858	589,266	114,214
Interest and Dividends	49,463	40,186	412	41,085	131,146	3,309
Gifts	134,692				134,692	
Investment Trades	137,308			32,532	169,840	1,918
Other	1,012,846			2,917	1,015,763	
Due From Other Funds (Note 12)	844,529		1,793	28,320	874,642	16,679
Due From Component Units (Note 12)	45				45	
Interfund Receivable (Note 12)	15,210	115		153	15,478	
Inventories	110,069			18,898	128,967	
Prepaid Items	123,577			3,363	126,940	
Loans and Contracts	117,307	147,459		70,098	334,864	
Other Current Assets	334,227			219	334,446	
Total Current Assets	9,465,804	1,237,708	371,838	2,024,649	13,099,999	505,874
Noncurrent Assets:						
Restricted:						
Cash and Cash Equivalents	213,933		21	5,416	219,370	
Short-Term Investments	17,321				17,321	
Investments	19,333,450		114,999	4,129,682	23,578,131	
Receivables	751			198,003	198,754	
Loans and Contracts	116,520			3,246,203	3,362,723	
Other	7,557			2,284	9,841	
Loans and Contracts	32,586	3,834,440		34,037	3,901,063	
Investments	4,092,652				4,092,652	509,392
Interfund Receivable (Note 12)	561,895	3,085			564,980	
Gifts Receivable	240,205				240,205	
Other Receivable	1,624				1,624	
Capital Assets: (Note 2)						
Nondepreciable	3,827,727		2,260,914	4,833	6,093,474	
Depreciable	25,470,816		430,286	98,679	25,999,781	
Accumulated Depreciation	(12,379,856)		(41,128)	(38,998)	(12,459,982)	
Assets Held in Trust	362			2,763	3,125	
Deferred Charges			41,106	10,971	52,077	
Other Noncurrent Assets	45,759			450	46,209	
Total Noncurrent Assets	41,583,302	3,837,525	2,806,198	7,694,323	55,921,348	509,392
Total Assets	51,049,106	5,075,233	3,178,036	9,718,972	69,021,347	1,015,266

Concluded on the following page

# Statement of Net Assets Proprietary Funds (concluded)

August 31, 2009 (Amounts in Thousands)

	Business-Type Activities – Enterprise Funds					Governmental Activities – Internal Service Fund**
	Colleges and Universities*	Texas Water Development Board Funds	Texas Department of Transportation Turnpike Authority	Nonmajor Enterprise Funds	Totals	
<b>LIABILITIES</b>						
Current Liabilities:						
Payables:						
Accounts	\$ 1,104,263	\$ 219	\$ 707	\$ 254,675	\$ 1,359,864	\$ 494,751
Payroll	658,459			5,226	663,685	
Other Intergovernmental	15,409				15,409	
Federal	34,448				34,448	
Investment Trades	245,268			113,859	359,127	4,351
Interest	4,555	12,202	1,860	42,455	61,072	
Annuities				12,173	12,173	
Due To Other Funds (Note 12)	17,211	2,595	1,879	34,939	56,624	89,762
Interfund Payable (Note 12)	17,823				17,823	
Unearned Revenue	2,253,067	49,153	57,749	75,053	2,435,022	403
Obligations/Securities Lending	456,490			344,866	801,356	143,515
Claims and Judgments (Note 5)	103,843				103,843	
Capital Lease Obligations (Note 5, 7)	2,276			132	2,408	
Employees' Compensable Leave (Note 5)	306,017			3,704	309,721	
Notes and Loans Payable (Note 5)	1,024,088			9,332	1,033,420	
General Obligation Bonds Payable (Note 5, 6)	8,110	42,700		100,592	151,402	
Revenue Bonds Payable (Note 5, 6)	1,828,358	48,100		28,884	1,905,342	
Pollution Remediation Obligation (Note 5)	341				341	
Liabilities Payable From Restricted						
Assets (Note 5)				475,623	475,623	
Funds Held for Others	123,911				123,911	
Other Current Liabilities	243,306		1,871	7,351	252,528	
Total Current Liabilities	8,447,243	154,969	64,066	1,508,864	10,175,142	732,782
Noncurrent Liabilities:						
Interfund Payable (Note 12)	569,826				569,826	
Claims and Judgments (Note 5)	51,766				51,766	
Capital Lease Obligations (Note 5, 7)	10,069			68	10,137	
Employees' Compensable Leave (Note 5)	349,911			1,991	351,902	
Notes and Loans Payable (Note 5)	52,665		972,092	289,637	1,314,394	
Liabilities Payable From Restricted						
Assets (Note 5)				3,252,738	3,252,738	
General Obligation Bonds Payable (Note 5, 6)	47,067	943,495		1,785,189	2,775,751	
Revenue Bonds Payable (Note 5, 6)	7,913,037	1,506,411	1,499,620	2,663,560	13,582,628	
Assets Held for Others	688,565			2,763	691,328	
Net OPEB Obligation (Note 11)	1,060,898				1,060,898	
Other Noncurrent Liabilities	48,333			118,666	166,999	
Total Noncurrent Liabilities	10,792,137	2,449,906	2,471,712	8,114,612	23,828,367	0
Total Liabilities	19,239,380	2,604,875	2,535,778	9,623,476	34,003,509	732,782
<b>NET ASSETS</b>						
Invested in Capital Assets, Net of Related Debt	7,435,922		178,360	40,468	7,654,750	
Restricted for:						
Education	2,315,160				2,315,160	
Debt Retirement	39,467		151,120	17,305	207,892	
Capital Projects	386,555				386,555	
Veterans Land Board Housing Programs				659,010	659,010	
Funds Held as Permanent Investments:						
Nonexpendable	9,556,352				9,556,352	
Expendable	5,572,988				5,572,988	
Other				45,632	45,632	282,484
Unrestricted	6,503,282	2,470,358	312,778	(666,919)	8,619,499	
Total Net Assets	\$ 31,809,726	\$ 2,470,358	\$ 642,258	\$ 95,496	\$ 35,017,838	\$ 282,484

The accompanying notes to the financial statements are an integral part of this statement.

\* Other postemployment benefits are not legally required to be provided by the state of Texas. The Texas Constitution does not allow the Legislature to impose financial obligations for a period longer than two years. See Note 11 for additional details.

\*\* Employees life, accident and health insurance benefits fund - no combining statements presented.

# Statement of Revenues, Expenses and Changes in Fund Net Assets

## Proprietary Funds

For the Fiscal Year Ended August 31, 2009 (Amounts in Thousands)

	Business-Type Activities – Enterprise Funds					Governmental Activities – Internal Service Fund**
	Colleges and Universities*	Texas Water Development Board Funds	Texas Department of Transportation Turnpike Authority	Nonmajor Enterprise Funds	Totals	
<b>OPERATING REVENUES</b>						
Lottery Collections	\$	\$	\$	\$ 3,720,481	\$ 3,720,481	\$
Tuition Revenue	567,472				567,472	
Tuition Revenue - Pledged	3,176,072				3,176,072	
Discounts and Allowances	(738,062)				(738,062)	
Hospital Revenue - Pledged	6,215,283				6,215,283	
Discounts and Allowances	(3,081,846)				(3,081,846)	
Professional Fees	3,645,283				3,645,283	
Professional Fees - Pledged	14,732				14,732	
Discounts and Allowances	(2,359,232)				(2,359,232)	
Auxiliary Enterprises	60,392				60,392	
Auxiliary Enterprises - Pledged	915,338			90,060	1,005,398	
Discounts and Allowances	(32,515)				(32,515)	
Unemployment Taxes				1,027,897	1,027,897	
Other Sales of Goods and Services	65,564			142,265	207,829	
Other Sales of Goods and Services - Pledged	560,820		66,362	34,037	661,219	
Discounts and Allowances	(22,020)				(22,020)	
Interest and Investment Income	1,580	74,674		318,096	394,350	
Interest and Investment Income - Pledged	441	100,877			101,318	
Federal Revenue	2,012,377			1,624,005	3,636,382	202
State Grant Revenue	28,779				28,779	
Premium Revenue						1,489,970
Other Operating Grant Revenue	515,582				515,582	
Other Operating Grant Revenue - Pledged	754,847				754,847	
Other Revenues	25,584	3,890		179,823	209,297	1,254
Other Revenues - Pledged	123,265			29	123,294	
Total Operating Revenues	12,449,736	179,441	66,362	7,136,693	19,832,232	1,491,426
<b>OPERATING EXPENSES</b>						
Cost of Goods Sold	133,649			65,675	199,324	
Salaries and Wages	9,302,185	7,429		49,840	9,359,454	4,787
Payroll Related Costs	2,108,483	1,532		12,208	2,122,223	1,142
Professional Fees and Services	922,005	1,107	11,274	78,743	1,013,129	1,200
Travel	260,482	82		650	261,214	29
Materials and Supplies	1,646,700	252	2,484	5,553	1,654,989	581
Communication and Utilities	634,786	45	1,563	1,643	638,037	244
Repairs and Maintenance	416,691	11	12,102	2,799	431,603	251
Rentals and Leases	212,982	54		7,180	220,216	347
Printing and Reproduction	59,175	4		13,942	73,121	29
Depreciation and Amortization	1,139,581		17,038	6,446	1,163,065	
Unemployment Benefit Payments				4,908,112	4,908,112	
Bad Debt Expense	14,171			1,551	15,722	
Interest Expense	254	112,961		238,280	351,495	
Scholarships	726,905				726,905	
Lottery Fees and Other Costs				289,599	289,599	
Lottery Prize Payments				2,299,753	2,299,753	
Employee/Participant Benefit Payments				334,518	334,518	1,632,962
Claims and Judgments	65,065				65,065	
Net Change in Pension/OPEB Obligations (Note 11)	497,912				497,912	
Other Expenses	1,108,998	3,781	23,567	98,487	1,234,833	452
Total Operating Expenses	19,250,024	127,258	68,028	8,414,979	27,860,289	1,642,024
Operating Income (Loss)	(6,800,288)	52,183	(1,666)	(1,278,286)	(8,028,057)	(150,598)

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# Statement of Revenues, Expenses and Changes in Fund Net Assets Proprietary Funds (concluded)

For the Fiscal Year Ended August 31, 2009 (Amounts in Thousands)

	Business-Type Activities – Enterprise Funds					Governmental Activities – Internal Service Fund**
	Colleges and Universities*	Texas Water Development Board Funds	Texas Department of Transportation Turnpike Authority	Nonmajor Enterprise Funds	Totals	
<b>NONOPERATING REVENUES (EXPENSES)</b>						
Federal Revenue	\$ 514,069	\$ 88,753	\$	\$ 476	\$ 603,298	\$
Gifts	406,663			6	406,669	
Gifts - Pledged	190,033				190,033	
Land Income	4,461		13		4,474	
Interest and Investment Income (Loss)	(2,973,254)	5	10,374	(60,862)	(3,023,737)	47,755
Interest and Investment Income - Pledged	48,530				48,530	
Loan Premium and Fees on Securities Lending				1,243	1,243	1,179
Investing Activities Expense	(75,300)			(29)	(75,329)	
Interest Expense	(312,187)		(152,499)	(1,545)	(466,231)	
Borrower Rebates and Agent Fees	(2,593)			(1,478)	(4,071)	(452)
Gain on Sale of Capital Assets	600			9	609	
Settlement of Claims	14,691			(23)	14,668	91
Claims and Judgments	(2,066)			(1)	(2,067)	
Other Revenues	26,246		17		26,263	
Other Revenues - Pledged	58,983				58,983	
Other Expenses	(103,528)	(1,465)	(354)		(105,347)	
Total Nonoperating Revenues (Expenses)	(2,204,652)	87,293	(142,449)	(62,204)	(2,322,012)	48,573
Income (Loss) Before Capital Contributions, Endowments and Transfers	(9,004,940)	139,476	(144,115)	(1,340,490)	(10,350,069)	(102,025)
<b>CAPITAL CONTRIBUTIONS, ENDOWMENTS AND TRANSFERS</b>						
Capital Contributions - Federal	2,192				2,192	
Capital Contributions - Other	85,204		8,433		93,637	
Contributions to Permanent and Term Endowments	120,404				120,404	
Transfer In (Note 12)	6,113,242	3,837	19,317	13,634	6,150,030	
Transfer Out (Note 12)	(767,672)	(13,396)		(1,100,887)	(1,881,955)	
Total Capital Contributions, Endowments and Transfers	5,553,370	(9,559)	27,750	(1,087,253)	4,484,308	0
Change in Net Assets	(3,451,570)	129,917	(116,365)	(2,427,743)	(5,865,761)	(102,025)
Net Assets, September 1, 2008	36,521,640	2,340,441	757,435	2,532,792	42,152,308	384,509
Restatements (Note 14)	(1,260,344)		1,188	(9,553)	(1,268,709)	
Net Assets, September 1, 2008, as Restated	35,261,296	2,340,441	758,623	2,523,239	40,883,599	384,509
Net Assets, August 31, 2009	\$ 31,809,726	\$ 2,470,358	\$ 642,258	\$ 95,496	\$ 35,017,838	\$ 282,484

The accompanying notes to the financial statements are an integral part of this statement.

\* Other postemployment benefits are not legally required to be provided by the state of Texas. The Texas Constitution does not allow the Legislature to impose financial obligations for a period longer than two years. See Note 11 for additional details.

\*\* Employees life, accident and health insurance benefits fund - no combining statements presented.

# Statement of Cash Flows – Proprietary Funds

For the Fiscal Year Ended August 31, 2009 (Amounts in Thousands)

	Business-Type Activities – Enterprise Funds					Governmental Activities – Internal Service Fund*
	Colleges and Universities	Texas Water Development Board Funds	Texas Department of Transportation Turnpike Authority	Nonmajor Enterprise Funds	Totals	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>						
Receipts from Customers	\$ 4,687,816	\$	\$ 94,626	\$ 4,903,003	\$ 9,685,445	\$ 380,200
Proceeds from Tuition and Fees	3,075,957				3,075,957	
Proceeds from Research Grants and Contracts	3,955,901			1,519,440	5,475,341	
Proceeds from Gifts	5,208			15	5,223	
Proceeds from Loan Programs	244,257			750,090	994,347	
Proceeds from Auxiliaries	899,084				899,084	
Proceeds from Other Revenues	785,574			263,351	1,048,925	1,104,297
Payments to Suppliers for Goods and Services	(5,716,508)	(1,907)	(45,733)	(502,905)	(6,267,053)	(3,032)
Payments to Employees	(11,349,828)	(8,126)		(61,043)	(11,418,997)	(6,003)
Payments for Loans Provided	(276,269)			(525,749)	(802,018)	
Payments for Unemployment Benefits				(4,741,632)	(4,741,632)	
Payments for Lottery Prizes				(2,299,753)	(2,299,753)	
Payments for Other Expenses	(814,614)	(75)	(27,941)	(136,643)	(979,273)	(1,600,571)
Net Cash Provided (Used) by Operating Activities	(4,503,422)	(10,108)	20,952	(831,826)	(5,324,404)	(125,109)
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>						
Proceeds from Debt Issuance		794,763		252,926	1,047,689	
Proceeds from State Appropriations	4,428,297	3,837			4,432,134	
Proceeds from Gifts	625,408				625,408	
Proceeds from Endowments	160,383				160,383	
Proceeds from Transfers from Other Funds	226,874	169,757		6,077,091	6,473,722	
Proceeds from Loan Programs	70,160			393,924	464,084	
Proceeds from Grant Receipts	276,827	89,042			365,869	
Proceeds from Interfund Payables	3,677	33,564			37,241	
Proceeds from Other Financing Activities	272,088			289,114	561,202	
Payments of Principal on Debt Issuance		(88,030)		(323,049)	(411,079)	
Payments of Interest	(101)	(113,519)		(241,690)	(355,310)	
Payments of Other Costs on Debt Issuance		(377)		(1,352)	(1,729)	
Payments for Transfers to Other Funds	(265,721)	(493,790)		(7,397,466)	(8,156,977)	
Payments for Grant Disbursements	(198)	(11,308)			(11,506)	
Payments for Interfund Receivables		(53,028)			(53,028)	
Payments for Other Uses	(156,164)			(177,009)	(333,173)	
Net Cash Provided (Used) by Noncapital Financing Activities	5,641,530	330,911	0	(1,127,511)	4,844,930	0
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>						
Proceeds from Sale of Capital Assets	2,259				2,259	
Proceeds from Debt Issuance	3,558,476		143,041		3,701,517	
Proceeds from State Grants and Contracts	74,210			147	74,357	
Proceeds from Federal Grants and Contracts	866				866	
Proceeds from Gifts	4,542				4,542	
Proceeds from Other Financing Activities	121,929		13	868	122,810	
Proceeds from Capital Contributions	213,488		761		214,249	
Proceeds from Interfund Payables	64,360				64,360	
Payments for Additions to Capital Assets	(2,747,165)		(23,836)	(1,767)	(2,772,768)	
Payments of Principal on Debt Issuance	(2,080,209)		(150,000)	(350)	(2,230,559)	
Payments for Capital Leases	(297)				(297)	
Payments of Interest on Debt Issuance	(323,433)		(43,156)	(1,459)	(368,048)	
Payments of Other Costs on Debt Issuance	(49,463)		(353)	(661)	(50,477)	
Net Cash Used by Capital and Related Financing Activities	(1,160,437)	0	(73,530)	(3,222)	(1,237,189)	0

Concluded on the following page

# Statement of Cash Flows – Proprietary Funds (concluded)

For the Fiscal Year Ended August 31, 2009 (Amounts in Thousands)

	Business-Type Activities – Enterprise Funds					Governmental Activities – Internal Service Fund*
	Colleges and Universities	Texas Water Development Board Funds	Texas Department of Transportation Turnpike Authority	Nonmajor Enterprise Funds	Totals	
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>						
Proceeds from Sale of Investments	\$ 20,915,396	\$	\$ 111,321	\$ 2,996,738	\$ 24,023,455	\$ 114,900
Proceeds from Interest and Investment Income	677,420	161,699	10,908	207,400	1,057,427	1,383
Proceeds from Principal Payments on Loans		223,480			223,480	
Payments for Nonprogram Loans Provided		(615,755)		(25)	(615,780)	
Payments to Acquire Investments	(21,058,754)	(194,660)	(105,374)	(2,810,279)	(24,169,067)	
Net Cash Provided by Investing Activities	<u>534,062</u>	<u>(425,236)</u>	<u>16,855</u>	<u>393,834</u>	<u>519,515</u>	<u>116,283</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>511,733</u>	<u>(104,433)</u>	<u>(35,723)</u>	<u>(1,568,725)</u>	<u>(1,197,148)</u>	<u>(8,826)</u>
Cash and Cash Equivalents, September 1, 2008	4,042,182	231,466	387,146	2,439,503	7,100,297	23,175
Restatements	(2,282)			2	(2,280)	
Cash and Cash Equivalents, September 1, 2008, as Restated	<u>4,039,900</u>	<u>231,466</u>	<u>387,146</u>	<u>2,439,505</u>	<u>7,098,017</u>	<u>23,175</u>
Cash and Cash Equivalents, August 31, 2009	<u>\$ 4,551,633</u>	<u>\$ 127,033</u>	<u>\$ 351,423</u>	<u>\$ 870,780</u>	<u>\$ 5,900,869</u>	<u>\$ 14,349</u>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>						
Operating Income (Loss)	\$ (6,800,288)	\$ 52,183	\$ (1,666)	\$ (1,278,286)	\$ (8,028,057)	\$ (150,598)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities:						
Depreciation and Amortization	1,139,581		17,038	6,446	1,163,065	
Bad Debt Expense	208,215			1,551	209,766	
Operating Income (Loss) and Cash Flow Categories Classification Differences	448,724	(62,709)		81,998	468,013	(875)
Changes in Assets and Liabilities:						
(Increase) Decrease in Receivables	(253,224)		(309)	(41,857)	(295,390)	(18,216)
(Increase) Decrease in Due From Other Funds	11,501		(1,486)		10,015	(466)
(Increase) Decrease in Inventories	3,334			(3,907)	(573)	
(Increase) Decrease in Notes Receivable	(1,287)				(1,287)	
(Increase) Decrease in Loans and Contracts	(54)			(49,068)	(49,122)	
(Increase) Decrease in Other Assets	30,175			2,851	33,026	
(Increase) Decrease in Prepaid Expenses	(39,985)			(88)	(40,073)	
(Increase) Decrease in State Appropriations	(2,463)				(2,463)	
Increase (Decrease) in Payables	134,499	(29)	5,381	502,213	642,064	32,403
Increase (Decrease) in Deposits	(2,108)				(2,108)	
Increase (Decrease) in Due To Other Funds	(3,329)	447		539	(2,343)	12,654
Increase (Decrease) in Unearned Revenue	112,119		1,994	(29,881)	84,232	(11)
Increase (Decrease) in Compensated Absence Liability	40,879			38	40,917	
Increase (Decrease) in Benefits Payable	495,724				495,724	
Increase (Decrease) in Other Liabilities	(25,435)			(24,375)	(49,810)	
Total Adjustments	<u>2,296,866</u>	<u>(62,291)</u>	<u>22,618</u>	<u>446,460</u>	<u>2,703,653</u>	<u>25,489</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ (4,503,422)</u>	<u>\$ (10,108)</u>	<u>\$ 20,952</u>	<u>\$ (831,826)</u>	<u>\$ (5,324,404)</u>	<u>\$ (125,109)</u>
<b>NONCASH TRANSACTIONS</b>						
Net Change in Fair Value of Investments	\$ (1,711,347)	\$ 875	\$ 141	\$ (92,586)	\$ (1,802,917)	\$ 20,741
Donation of Capital Assets	\$ 37,979	\$	\$	\$	\$ 37,979	\$
Borrowing Under Capital Lease Purchase	\$ 1,107	\$	\$	\$	\$ 1,107	\$
Other	\$ 25,527	\$	\$	\$ (1,717)	\$ 23,810	\$

The accompanying notes to the financial statements are an integral part of this statement.

\* Employees life, accident and health insurance benefits fund – no combining statements presented.

## Statement of Fiduciary Net Assets

August 31, 2009 (Amounts in Thousands)

	Pension and Other Employee Benefit Trust Funds	External Investment Trust Fund*	Private- Purpose Trust Funds	Agency Funds
<b>ASSETS</b>				
Cash and Cash Equivalents	\$ 6,226,029	\$ 363,227	\$ 261,830	\$ 1,202,315
Restricted Cash and Cash Equivalents			439	
Securities Lending Collateral	25,235,704			
Investments:				
U.S. Government	16,321,133	7,412,901	20,024	78,071
Corporate Equity	32,050,958		360,868	137,281
Corporate Obligations	3,621,733		81,048	114
Repurchase Agreements	1,405,254	8,534,279		34,527
Foreign Securities	26,433,467			
Other	23,273,395		1,616,284	42,268
Receivables:				
Interest and Dividends	330,349	17,132	4,262	727
Accounts	258,657		298	7,183
Other Intergovernmental				934
Investment Trades	509,765		4,983	
Other	484		1,767	6
Due From Other Funds (Note 12)	199,399			167
Inventories				
Properties, at Cost, Net of Accumulated Depreciation	39,969		959	
Other Assets	250		82,949	1,716,491
Total Assets	<u>135,906,546</u>	<u>16,327,539</u>	<u>2,435,711</u>	<u>3,220,084</u>
<b>LIABILITIES</b>				
Payables:				
Accounts	\$ 289,038	\$ 6,079	\$ 16,692	\$ 22
Investment Trades	263,412		7,395	
Payroll	425			
Other Intergovernmental				747,337
Interest			32	
Annuities	549,863			
Due To Other Funds (Note 12)	24,625		17	1,660
Unearned Revenue	24,576		124	
Employees' Compensable Leave	7,530			
Obligations/Securities Lending	25,296,161			
Funds Held for Others			82,948	2,471,064
Other Liabilities	2,387	708	391	1
Total Liabilities	<u>26,458,017</u>	<u>6,787</u>	<u>107,599</u>	<u>3,220,084</u>
<b>NET ASSETS</b>				
Held in Trust for:				
Pension Benefits and Other Purposes	109,448,529			
Individuals, Organizations and Other Governments			2,328,112	
Pool Participants		16,320,752		
Total Net Assets	<u>\$ 109,448,529</u>	<u>\$ 16,320,752</u>	<u>\$ 2,328,112</u>	<u>\$ 0</u>

The accompanying notes to the financial statements are an integral part of this statement.

\* Texas government investment pool (TexPool) trust fund – no combining statements presented.

## Statement of Changes in Fiduciary Net Assets

For the Fiscal Year Ended August 31, 2009 (Amounts in Thousands)

	Pension and Other Employee Benefit Trust Funds	External Investment Trust Fund*	Private- Purpose Trust Funds
<b>ADDITIONS</b>			
Contributions:			
Member Contributions	\$ 2,624,148	\$	\$
State Contributions	2,571,761		
Premium Contributions	789,362		
Federal Contributions	97,314		4,190
Other Contributions	689,265		84,810
Total Contributions	<u>6,771,850</u>	<u>0</u>	<u>89,000</u>
Investment Income (Loss):			
From Investing Activities:			
Net Depreciation in Fair Value of Investments	(18,042,619)		(304,782)
Interest and Investment Income	2,614,787	208,400	23,917
Total Investing Income (Loss)	<u>(15,427,832)</u>	<u>208,400</u>	<u>(280,865)</u>
Less Investing Activities Expense	104,972	9,973	1,029
Net Income (Loss) from Investing Activities	<u>(15,532,804)</u>	<u>198,427</u>	<u>(281,894)</u>
From Securities Lending Activities:			
Securities Lending Income	436,962		
Less Securities Lending Expense:			
Borrower Rebates	116,905		114
Management Fees	41,289		
Net Income (Loss) from Securities Lending	<u>278,768</u>	<u>0</u>	<u>(114)</u>
Total Net Investment Income (Loss)	<u>(15,254,036)</u>	<u>198,427</u>	<u>(282,008)</u>
Capital Share and Individual Account Transactions:			
Net Decrease in Participant Investments	<u>0</u>	<u>(1,252,757)</u>	<u>0</u>
Other Additions:			
Settlement of Claims	19		3,430
Other Revenue	1,509		288,413
Transfer In (Note 12)	129,026		30
Total Other Additions	<u>130,554</u>	<u>0</u>	<u>291,873</u>
Total Additions	<u>(8,351,632)</u>	<u>(1,054,330)</u>	<u>98,865</u>
<b>DEDUCTIONS</b>			
Benefits	9,401,984		65,342
Refunds of Contributions	337,859		
Transfer Out (Note 12)	100,855		271
Intergovernmental Payments			97,506
Administrative Expenses	49,341		6,083
Depreciation Expense	2,145		39
Settlement of Claims			103,079
Interest Expense	67		5
Loss on Sale of Properties	8		
Other Expenses	4,085		545,493
Total Deductions	<u>9,896,344</u>	<u>0</u>	<u>817,818</u>
<b>DECREASE IN NET ASSETS</b>	<u>(18,247,976)</u>	<u>(1,054,330)</u>	<u>(718,953)</u>
<b>NET ASSETS</b>			
Net Assets, September 1, 2008	127,696,505	17,375,082	3,046,704
Restatements			361
Net Assets, September 1, 2008, as Restated	<u>127,696,505</u>	<u>17,375,082</u>	<u>3,047,065</u>
Net Assets, August 31, 2009	<u>\$ 109,448,529</u>	<u>\$ 16,320,752</u>	<u>\$ 2,328,112</u>

The accompanying notes to the financial statements are an integral part of this statement.

\* Texas government investment pool (TexPool) trust fund – no combining statements presented.



## State of Texas

### Notes to Financial Statements

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# Note 1

## Summary of Significant Accounting Policies

### BASIS OF PRESENTATION

The accompanying basic financial statements of the state of Texas have been prepared in conformity with generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB).

The state implemented the following GASB Statements in fiscal 2009.

GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, was implemented. This statement establishes standards for accounting and financial reporting for pollution remediation obligations. Items covered in the statement include obligations to clean up spills of hazardous wastes or hazardous substances and obligations to remove contamination such as asbestos. Pollution remediation obligations do not include pollution prevention or control obligations with respect to current operations.

GASB Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*, was implemented. This statement establishes consistent standards for the reporting of land and other real estate held as investments by essentially similar entities. It requires endowments to report their land and other real estate investments at fair value. Governments are also required to report the changes in fair value as investment income.

GASB Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, was implemented. This statement incorporates the American Institute of Certified Public Accountants' (AICPA) Statement on Auditing Standards No. 69, *The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles*, into the GASB authoritative literature. This statement is part of GASB's efforts to codify all relevant guidance into a single source. GASB does not expect this statement to result in a change in current financial reporting practice.

GASB Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards*, was implemented. This statement incorporates certain AICPA accounting and financial reporting guidance into GASB authoritative guidance and does not establish new accounting standards. The statement specifically addresses three issues that are not included in the literature establishing accounting principles: related party transactions, going concern considerations and subsequent events. As with GASB 55, this statement is part of GASB's efforts to codify all relevant guidance into a single source.

Financial reporting for the state is based on all GASB pronouncements, as well as Financial Accounting Standards Board (FASB) statements and interpretations, Accounting Principles Board (APB) opinions and Accounting Research Bulletins issued on or before Nov. 30, 1989, that do not conflict with or contradict GASB pronouncements. FASB pronouncements issued after Nov. 30, 1989, are not followed in the preparation of the accompanying financial statements.

### FINANCIAL REPORTING ENTITY

For financial reporting purposes, the state of Texas has included all funds, agencies, boards, commissions, authorities, colleges and universities and other organizations that comprise its legal entity. The reporting entity also includes legally separate organizations for which the state is financially accountable and any other organizations that would cause the financial statements to be misleading or incomplete if they were excluded. All activities considered part of the state are included. These activities provide a range of services in the areas of general government, education, employee benefits, teacher retirement benefits, health and human services, public safety and corrections, transportation, natural resources and recreation and regulatory services.

The reporting entity for the state is in accordance with the criteria established by GASB. A listing and brief summary of the component units and their relationship to the state of Texas is discussed in Note 19. These financial statements present the state of Texas (the primary government) and its component units.

The state's public school districts and junior and community colleges are excluded from the reporting entity. The

state is not financially accountable for these entities. They are legally separate entities that are fiscally independent of the state. This independence warrants their exclusion from the financial statements.

## FINANCIAL REPORTING STRUCTURE

The basic financial statements include both government-wide financial statements and fund financial statements. The reporting model based on GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, focuses on the state as a whole in the government-wide financial statements and major individual funds in the fund financial statements.

### Government-wide Financial Statements

The government-wide financial statements (statement of net assets and statement of activities) display information about the state as a whole and the change in aggregate financial position resulting from the activities of the fiscal period, except for its fiduciary activities. These statements include separate columns for the governmental and business-type activities of the state (including its blended component units) as well as its discretely presented component units. In the statement of net assets, both the governmental and business-type activities columns are presented on a consolidated basis by column and are reflected on an accrual basis, economic resources measurement focus, which incorporates noncurrent investments, capital assets and long-term debt and obligations.

The statement of activities reflects both the gross and net cost per functional category (public safety and corrections, transportation, etc.), which is otherwise supported by general government revenues (sales and use taxes, franchise taxes, etc.). In the statement of activities, program revenues are netted against program expenses, which include depreciation, to present the net cost of each program. Program revenues must be directly associated with the function or with a business-type activity. Internally dedicated resources are reported as general revenues rather than program revenues. Certain general government administrative overhead expenses have been charged to the various functions of the state. These charges are paid from applicable funding sources and are reflected as direct expenses.

Program revenues include charges for services; operating grants and contributions; and capital grants and contributions. Charges for services include special assessments and payments made by parties outside of the state's citizenry if that money is restricted to a particular program. Operating grants include operating-specific and discretionary (either operating or capital) grants while the capital grants column reflects capital-specific grants. Multipurpose grants that provide financing for more than one program are reported as program revenue if the amounts restricted to each program are specifically identifiable. Multipurpose grants that do not provide for specific identification of the programs and amounts are reported as general revenues.

The state's fiduciary funds are presented in the fund financial statements by type (pension and other employee benefit trust, external investment trust, private-purpose trust and agency). The assets of the fiduciary funds are held for the benefit of others and cannot be used to address activities or obligations of the government. They are not, therefore, incorporated into the government-wide financial statements.

### Fund Financial Statements

The fund financial statements are presented after the government-wide financial statements. They display information about major funds individually and in the aggregate for governmental and proprietary funds. In governmental and fiduciary funds, assets and liabilities are presented in order of relative liquidity. In proprietary funds, assets and liabilities are presented in a classified format that distinguishes between all current and noncurrent assets and liabilities. Current assets in the classified format are those considered available for appropriation and expenditure. Examples of expendable financial resources include cash, various receivables and short-term investments. All other assets are considered noncurrent. Current liabilities are obligations to be paid within the next fiscal year. Examples include payables and the current portion of long-term liabilities.

The major governmental funds in the fund financial statements are presented on a current financial resources measurement focus and modified accrual basis of accounting. This presentation is deemed most appropriate to demonstrate compliance with legal and covenant require-

ments, the source and use of financial resources and how the state's actual experience conforms to the budget. Since the governmental fund financial statements are presented using a different measurement focus and basis of accounting than the government-wide financial statements, governmental activities column, a reconciliation is presented. This explains the adjustments required to restate the fund-based financial statements for the government-wide financial statements' governmental activities column.

The state uses funds to report its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts. State transactions are recorded in the fund types described below.

### Governmental Fund Types

Governmental funds focus on the sources and uses of funds. Included in the governmental fund financial statements are general, special revenue, debt service, capital projects and permanent funds. The general fund is the principal operating fund used to account for most of the state's general activities. It accounts for all financial resources except those accounted for in other funds. Special revenue funds account for specific revenue proceeds that are legally restricted for specific purposes. Debt service funds account for the accumulation of resources for and the payment of general long-term debt principal and interest. Capital projects funds account for financial resources used for the acquisition, repair, renovation or construction of major capital facilities other than those financed by proprietary or similar trust funds. Permanent funds are used to report resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support the state's programs.

The state's major governmental funds are listed below.

The **General Fund** includes transactions for general government, education, employee benefits, teacher retirement benefits, health and human services, public safety and corrections, transportation, natural resources and recreation and regulatory services.

The **State Highway Fund** receives funds allocated by law for public road construction, maintenance, monitoring and law enforcement of the state's highway system.

The **Permanent School Fund** is an investment fund consisting of land and proceeds from the sale of land that establishes a perpetual provision for the support of the public schools of Texas. All dividends and other income are allocated to the credit of the available school fund.

### Proprietary Fund Types

Proprietary funds focus on determining operating income, changes in net assets, financial position and cash flows. Generally accepted accounting principles similar to those used by private sector businesses are applied in accounting for these funds. Included in proprietary fund financial statements are enterprise funds and an internal service fund.

Enterprise funds are used to report any activity for which a fee is charged to external users for goods or services. Activities must be reported as enterprise funds if any one of the following criteria is met:

- The activity is financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity,
- Laws or regulations require that the activity's costs of providing services, including capital costs (such as depreciation or debt service), be recovered with fees and charges, or
- The pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs.

Internal service funds account for the financing of goods or services provided by one agency to other agencies on a cost reimbursement basis. The employees life, accident and health insurance benefits fund, presented on the proprietary fund financial statements, is used to account for the services provided by the Group Insurance Program to other agencies of the reporting entity.

The state's major enterprise funds are listed below.

The **Colleges and Universities** include University of Texas System, Texas A&M University System, Texas Tech University System, University of Houston System, Texas State University System, University of North Texas

System, Texas Woman's University, Stephen F. Austin State University, Texas Southern University, Midwestern State University and Texas State Technical College. They are represented as a single column in the proprietary fund financial statements and individually in the schedules of colleges and universities in the other supplementary information section of this report.

The **Texas Water Development Board** funds include water development funds, agricultural water conservation funds and water pollution control revolving funds that issue bonds to provide assistance to political subdivisions.

The **Texas Department of Transportation Turnpike Authority** receives proceeds from the sale of bonds that are used to finance a portion of the costs of planning, designing, engineering, developing and constructing the initial phase of the Central Texas Turnpike System.

### Fiduciary Fund Types

Fiduciary funds account for assets held by the state in either a trustee capacity or as an agent for individuals, private organizations, other governmental units and/or other funds. When assets are held under the terms of a formal trust agreement, either a pension trust fund or a private-purpose trust fund is used.

Pension and other employee benefit trust funds report resources held in trust for the members and beneficiaries of defined benefit pension plans. Additional information about pension trust funds can be found in Note 9.

External investment trust funds report the external portions of investment pools reported by the sponsoring government.

Private-purpose trust funds report all other trust arrangements whose principal and interest benefit individuals, private organizations or other governments. These trusts include those for the tobacco settlement money, reserve for insurance company liquidations, relief of catastrophic insurance losses, contributions of prison inmates, educational savings plans and others.

Agency funds report assets the state holds on behalf of others in a purely custodial capacity. Agency funds involve only the receipt and remittance of fiduciary resources to individuals, private organizations or other governments.

Agency funds include those funds established to account for the collection of sales and use tax for distribution to localities, bond escrow funds, deposits of insurance carriers, child support collections and other miscellaneous accounts.

### Component Units

All of the component units for the state of Texas are reported as nonmajor component units. The combining statement of net assets - component units and the combining statement of activities - component units are presented for all of the discrete component units.

Additional information about blended and discretely presented component units can be found in Note 19. More detailed information of the individual component units is available from the component units' separately issued financial statements.

## BASIS OF ACCOUNTING, MEASUREMENT FOCUS AND FINANCIAL STATEMENT PRESENTATION

Government-wide financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Under the economic resources measurement focus, all economic resources and obligations of the reporting government, both current and noncurrent, are reported in the government-wide financial statements. Under the accrual basis of accounting, revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Revenues, expenses, gains, losses, assets and liabilities resulting from non-exchange transactions are recognized in accordance with GASB Statement No. 33, *Accounting and Financial Reporting for Non-exchange Transactions*.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. Governmental funds use the flow of current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets and current liabilities are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and

decreases (i.e., expenditures and other financing uses) in net current assets.

All governmental funds use the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized in the period in which they become both measurable and available to finance operations of the fiscal year or liquidate liabilities existing at fiscal year-end. The state of Texas considers all major revenue reported in the governmental funds to be available if the revenues are due at fiscal year-end and collected within 60 days thereafter.

Under the modified accrual basis of accounting, as used in the governmental fund financial statements, a receivable that is not expected to be collected within 60 days is not available to liquidate the liabilities of the current period and will be reported as deferred revenue. Deferred revenue also includes unearned revenue when cash or other assets are received prior to being earned.

Under the accrual basis of accounting, as used in the government-wide financial statements, proprietary fund financial statements and fiduciary fund financial statements, unearned revenue is recorded when cash or other assets are collected in advance before the revenue recognition criteria are met.

Expenditures and other uses of financial resources are recognized when the related liability is incurred. Although agency funds use the accrual basis of accounting, they do not have a measurement focus because they do not recognize revenues and expenditures.

Amounts paid to acquire capital assets are capitalized as assets in the government-wide financial statements rather than reported as expenditures. Proceeds of long-term debt are recorded as liabilities in the government-wide financial statements rather than as other financing sources. Amounts paid to reduce long-term indebtedness of the state are reported as reductions of the related liabilities rather than as expenditures. Proprietary fund types, pension and other employee benefit trust funds, external investment trust funds and private-purpose trust funds are reported on the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized at the time liabilities are incurred.

Proprietary funds distinguish operating from nonoperating items. Operating revenues and expenses result from providing services or producing and delivering goods in connection with the proprietary funds principal ongoing operations. Operating expenses for enterprise and internal service funds include the cost of sales and services, administrative expenses and depreciation on capital assets. Revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

### **Budgetary Information**

The budgetary comparison schedule and the notes to the budgetary comparison schedule are in the required supplementary information other than Management Discussion and Analysis (MD&A) section. The budgetary comparison schedule presents the original budget, the final budget and the actual activity of the major governmental funds. Reconciliations for the general fund and the state highway fund budgetary basis to the GAAP basis are presented as required supplementary information with explanations of the reconciling items. Budgetary information for nonmajor governmental funds is presented as other supplementary information. The governmental funds with legally adopted annual budgets are the general fund, the state highway fund and all other nonmajor special revenue funds listed in other supplementary information.

### **Cash and Cash Equivalents**

For reporting purposes, this account includes cash on hand, cash in transit, cash in local banks, cash in the federal and state treasuries and cash equivalents. Cash in local banks is primarily held by special revenue funds, employee benefit trust funds, enterprise funds and component units. Cash balances of most state funds are pooled and invested by the Treasury Operations Division of the Comptroller's office. Interest earned is deposited in the general revenue fund and specified funds designated by law.

The statement of cash flows for proprietary funds shows the change in cash and cash equivalents during the fiscal year. Cash equivalents are defined as short-term, highly liquid investments that are both (a) readily convertible to known amounts of cash and (b) so near maturity



they present insignificant risk of changes in value due to changes in interest rates. Investments with an original maturity of three months or less and that are used for cash management rather than investing activities are considered cash equivalents. Restricted securities held as collateral for securities lending are not included as cash equivalents on the statement of cash flows.

### Investments

Investments are reported at fair value in the balance sheet or other statement of financial position. Fair value is the amount at which an investment could be exchanged in a current transaction between willing parties other than in a forced or liquidation sale or through consultation with industry advisors. Certain money market investments may be reported at amortized cost provided the investment has a remaining maturity of one year or less at time of purchase. All investment income, including changes in the fair value of investments, is recognized as revenue in the operating statement or statement of activities. The distribution to the available school fund (ASF) is based on the total return based formula methodology. The ASF distribution should not exceed the lesser of 6 percent or the total return on all investment assets over the current year and the preceding nine years. The amount of transfers allocated to the ASF is \$716.5 million. The objective, significant terms and risks of derivative investments at Aug. 31, 2009, can be found in Note 3.

### Receivables and Payables

The major receivables for governmental activities and business-type activities are taxes and federal, respectively. Receivables represent amounts due to the state at Aug. 31, 2009, for revenues earned in the current fiscal year that will be collected in the future. Amounts expected to be collected in the next fiscal year are classified as current and amounts expected to be collected beyond the next fiscal year are classified as noncurrent. All receivables have been recorded net of allowances for uncollectible accounts.

Taxes receivable represent amounts earned in fiscal 2009, which will be collected sometime in the future. In the government-wide financial statements, a corresponding

amount is recorded as revenue. In the governmental fund financial statements, the portion considered available is recorded as revenue; the remainder is recorded as deferred revenue. Taxes receivable are estimated based on collection experience. Tax refunds payable represent amounts owed to taxpayers for overpayments or amended tax returns. The method for estimating taxes receivable, tax refunds payable, uncollectible amounts and the associated revenue was changed for fiscal 2009. See Note 24 for details on taxes receivable and tax refunds payable.

Other receivables consist primarily of supplemental nutrition assistance program receivables in the general fund and receivables from patients and private sponsored programs in the colleges and universities fund. Activities between funds that represent lending/borrowing arrangements outstanding at the end of the fiscal year are interfund loans. All other outstanding balances between funds are reported as “due from/due to other funds.” Any residual balances between governmental and business-type activities are reported in the government-wide financial statements as “internal balances.”

Noncurrent interfund receivables between funds, as shown in Note 12, are reported as a fund balance reserve account in applicable governmental funds to indicate they are not available for appropriation and are not expendable financial resources.

Trade receivables are reported for sales of investments pending settlement. Trade payables are purchases of investments pending settlement.

### Inventories and Prepaid Items

Inventories include both merchandise inventories on hand for sale and consumable inventories. Inventories are valued at cost generally utilizing the last-in, first-out method.

The consumption method of accounting is used to account for inventories that appear in both governmental and proprietary fund types. The cost of these items is expensed when the items are consumed. Prepaid items reflect payments for costs applicable to future accounting periods and are recorded in both government-wide financial statements and fund financial statements.



## Restricted Assets

Restricted assets include monies or other resources restricted by legal or contractual requirements. These assets include certain proceeds of enterprise fund general obligation and revenue bonds, as well as certain revenues, set aside for statutory or contractual requirements. Assets held in reserve for guaranteed student loan defaults are also included.

## Capital Assets

Capital assets are reported in proprietary funds, trust funds and government-wide financial statements. The capitalization threshold and the estimated useful life of the assets vary depending upon the asset type. Note 2 includes a chart identifying the capitalization threshold and the estimated useful life by asset type. It also provides information on the state's depreciation policy and other detailed information.

GASB 34 allows an alternative (modified) approach that reflects a reasonable value of the asset and cost required to maintain the service potential at established minimum standards in lieu of depreciation. The state has elected to use this option for its highway infrastructure. The state has developed and implemented an asset management system that establishes minimum standards and makes a yearly determination whether the minimum standards are being met. Disclosures of the minimum standards and the current status of the state's system of highways are included in the required supplementary information other than MD&A section of this report.

## Long-Term Liabilities

Reporting long-term liabilities in the statement of net assets requires two components: (a) the amount due in one year (current) and (b) the amount due in more than one year (noncurrent).

General long-term liabilities consist of the noncurrent portion of claims and judgments, capital lease obligations, employees' compensable leave and other noncurrent liabilities. General long-term liabilities are not reported as liabilities in governmental funds but are reported in the governmental activities column in the government-wide statement of net assets. The state reports rebatable arbitrage in claims

and judgments. General long-term debt is not limited to liabilities arising from debt issuances but may also include noncurrent liabilities on lease-purchase agreements and other commitments that are not current liabilities properly recorded in governmental funds.

In the government-wide financial statements and proprietary fund financial statements, bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line, bonds outstanding or effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Deferred issuance costs are reported as deferred charges and amortized over the term of the debt.

In the governmental fund financial statements, bond premiums and discounts, as well as bond issuance costs, are recognized during the current period. The face amount of the debt issued is reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

## Employees' Compensable Leave Balances

GASB Statement No. 16, *Accounting for Compensated Absences*, establishes standards of accounting and reporting for compensated absences (vacation, unpaid overtime and sick leave) by state and local governmental entities. GASB 34 requires governments to report and disclose the portion of compensated absences that is due within one year of the statement date.

*Annual leave*, commonly referred to as vacation leave, and other compensated absences with similar characteristics is accrued as a liability as the benefits are earned by the employee if both the employee's right to receive compensation is attributable to services already rendered and it is probable the employer will compensate the employee for the benefits through paid time off or some other means, such as cash payments at termination or retirement. Employees accrue vacation time at a rate of eight to 21 hours per month depending on years of employment. The maximum number of hours that can be carried forward to the next fiscal year ranges from 180 hours to 532 hours based on years of service.

*Overtime*, under the federal Fair Labor Standards Act and state laws, can be accumulated in lieu of immediate payment as compensatory leave (at one-and-one-half hours for each overtime hour worked) for nonexempt, nonemergency employees to a maximum of 240 hours. All overtime exceeding 240 hours must be paid with the next regular payroll. At termination or death, all overtime balances must be paid in full. For emergency personnel (firefighters, law enforcement, prison officers, etc.), overtime can be accumulated to a maximum of 480 hours. Unpaid overtime must be included in the calculation of current and noncurrent liabilities for each employee since it may be used like compensatory time or be paid.

*Compensatory leave* is allowed for exempt employees not eligible for overtime pay. This leave is accumulated on an hour-for-hour basis and must be taken within one year from date earned or it lapses. There is no death or termination benefit for compensatory leave and it is nontransferable. Compensatory leave is reported as a current liability.

*Sick leave* is accrued at a rate of eight hours per month with no limit on the amount that can be carried forward to the next fiscal year. Accumulated sick leave is not paid at employee termination, although an employee's estate may be paid for one-half of the accumulated sick leave to a maximum of 336 hours. A member who retires based on service or a disability is entitled to service credit in the retirement system for unused sick leave on the last day of employment. The maximum amount of the state's contingent obligation for sick leave has not been determined. The probability of a material impact on state operations in any given fiscal year is considered remote.

### Capital Lease Obligations

Capital lease contracts payable, which are not funded by current resources, represent the liability for future lease payments under capital lease contracts. Note 7 provides details for capital lease obligations.

### Encumbrances

Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting is utilized in the governmental funds. Encum-

brances outstanding at year-end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year or years.

### Net Assets and Fund Balances

Invested in capital assets, net of related debt, consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of bonds, mortgages, notes or other debt attributable to the acquisition, construction or improvement of such assets. Significant unspent related debt proceeds are not included in the calculation of invested in capital assets, net of related debt. The unspent portion of the debt is included in restricted for capital projects.

The state reports net assets as restricted when constraints placed on net assets are (a) externally imposed by creditors, grantors, contributors or laws or regulations of other governments or (b) imposed by law through constitutional provisions or enabling legislation. Enabling legislation authorizes the government to assess, levy, charge or otherwise mandate payment of resources (from external resource providers) and includes a legally enforceable requirement that those resources be used only for the specific purposes stipulated in the legislation. Restricted net assets are designated as either expendable or nonexpendable. Expendable restricted net assets are those funds that may be expended for either a stated purpose or for a general purpose subject to externally imposed stipulations. Nonexpendable restricted net assets are those funds that are required to be retained in perpetuity. Restricted net assets include the state's permanent endowment funds subject to externally imposed restrictions governing their use.

Unrestricted net assets consist of net assets that do not meet the definition of invested in capital assets, net of related debt or restricted net assets.

When both restricted and unrestricted net assets are available for use, it is the state's policy to use restricted resources first and then unrestricted resources as they are needed.

Fund balance reserve and designated fund balances for governmental funds are classified to reserved, unreserved/

designated or unreserved/undesignated. Reserved fund balances are either funds legally segregated for a specific use or assets that, by their nature, are not available for expenditure. Unreserved fund balances reflect the balances available for appropriation for the general purposes. Designations reflect senior management's self-imposed limitations on the use of available current financial resources. Note 13 presents disaggregated fund balances.

### Interfund Activity and Transactions - Government-wide Financial Statements

GASB 34 established a classification system with terms and definitions for interfund activity and modified requirements for reporting transfers.

**Interfund Activity:** As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements with the exception of activities between governmental activities and business-type activities. Interfund activity with fiduciary funds has been reclassified and reported as external activity.

Interfund payables and receivables have been eliminated from the statement of net assets except for amounts due between governmental and business-type activities. These amounts are reported as internal balances on the statement of net assets. Interfund activities between the primary government and component units with a different year end are limited and immaterial. Note 12 provides details of interfund activities and transactions.

**Interfund Transactions:** Interfund transactions with discretely presented component units have been reclassified and reported as external activity.

### Risk Financing

The state maintains a combination of commercial insurance and a self-insurance program. The state is self-insured for workers' compensation and unemployment compensation claims and funds the liabilities on a pay-as-you-go basis. The group insurance programs are provided through a combination of insurance contracts, self-funded health plans and health maintenance organization contracts.

Liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities include an amount for claims that

have been incurred but not reported. For additional information, see Note 17.



## Note 2

### Capital Assets

All capital assets are capitalized at cost or estimated historical cost if actual historical cost is not available. Based on the requirements of GASB Statement No. 34, *Basic Financial Statements - and Management Discussion and Analysis - for State and Local Governments*, depreciation is reported on all "exhaustible" assets. "Inexhaustible assets," such as works of art and historical treasures, are not depreciated. Professional, academic and research library books and materials are considered "exhaustible" assets and are depreciated. Donated assets are reported at fair value on the acquisition date. Assets are depreciated over the estimated useful life of the asset using the straight-line method. The capitalization threshold and useful lives are as follows.

### Capitalization of Assets

Type	Capitalization Threshold	Estimated Useful Life
Land and Land Improvements	\$ 0	Not applicable
Infrastructure, Nondepreciable	0	Not applicable
Construction in Progress	0	Not applicable
Buildings and Building Improvements	100,000	5-30 years
Infrastructure, Depreciable	500,000	10-50 years
Facilities and Other Improvements	100,000	10-60 years
Furniture and Equipment	5,000	3-15 years
Vehicles, Boats and Aircraft	5,000	5-40 years
Other Capital Assets (Library Books, Leasehold Improvements and Livestock)	Various	0-22 years

Most land improvements (infrastructure), including curbs, sidewalks, fences, bridges and lighting systems, are capitalized. The state's highway infrastructure, expected to be maintained in perpetuity, is reported using the modified approach allowed by GASB 34.

Capitalization of interest incurred during the construction of capital assets is not applicable for governmental activities in accordance with GASB Statement No. 37, *Basic Financial Statements - and Management Discussion and Analysis - for*

## Capital Asset Activity

For the Fiscal Year Ended August 31, 2009 (Amounts in Thousands)

	PRIMARY GOVERNMENT					
	Balance 9/1/08	Adjustments	Reclassifications	Additions	Deletions	Balance 8/31/09
<b>GOVERNMENTAL ACTIVITIES</b>						
<b>Nondepreciable Assets</b>						
Land and Land Improvements	\$ 7,821,911	\$ (105,443)	\$ 1,860	\$ 408,835	\$ (1,829)	\$ 8,125,334
Infrastructure	44,178,326	(848,434)	2,513,618	16,000		45,859,510
Construction in Progress	4,654,259	84,305	(3,707,661)	3,176,059		4,206,962
Other Capital Assets	181,062	53		187	(1)	181,301
Total Nondepreciable Assets	56,835,558	(869,519)	(1,192,183)	3,601,081	(1,830)	58,373,107
<b>Depreciable Assets</b>						
Buildings and Building Improvements	5,255,797	267	143,471	6,290	(8,634)	5,397,191
Infrastructure	16,763,126	847,246	999,764	1,786	(46,998)	18,564,924
Facilities and Other Improvements	206,720		6,057	374	(498)	212,653
Furniture and Equipment	1,092,694	(1,221)	16,648	62,010	(47,764)	1,122,367
Vehicles, Boats and Aircraft	981,502	(270)	(12)	61,835	(61,477)	981,578
Other Capital Assets	103,140	(978)	26,103	6,658	(1,603)	133,320
Total Depreciable Assets at Historical Cost	24,402,979	845,044	1,192,031	138,953	(166,974)	26,412,033
Less Accumulated Depreciation for:						
Buildings and Building Improvements	(2,798,642)	(34)		(168,137)	6,473	(2,960,340)
Infrastructure	(9,520,227)	(175,439)		(577,688)	43,344	(10,230,010)
Facilities and Other Improvements	(122,582)	(1)		(7,294)	476	(129,401)
Furniture and Equipment	(853,341)	(952)	204	(76,398)	45,495	(884,992)
Vehicles, Boats and Aircraft	(566,236)	151	9	(64,461)	51,545	(578,992)
Other Capital Assets	(50,621)	668		(5,694)	1,217	(54,430)
Total Accumulated Depreciation*	(13,911,649)	(175,607)	213	(899,672)	148,550	(14,838,165)
Depreciable Assets, Net	10,491,330	669,437	1,192,244	(760,719)	(18,424)	11,573,868
Governmental Activities Capital Assets, Net	\$ 67,326,888	\$ (200,082)	\$ 61	\$ 2,840,362	\$ (20,254)	\$ 69,946,975
* Depreciation expense was charged to Governmental Activities as follows:						
General Government		\$ 49,022				
Education		4,328				
Employee Benefits		4				
Health and Human Services		36,622				
Public Safety and Corrections		153,167				
Transportation		626,736				
Natural Resources and Recreation		26,986				
Regulatory Services		2,807				
Total Governmental Activities Depreciation Expense		\$ 899,672				
Concluded on the following page						

Concluded on the following page

*State and Local Governments: Omnibus.* For proprietary fund types and trust funds with measurement focus on income determination or capital maintenance, the net amount of interest cost for qualifying assets is capitalized.

Hurricane Ike hit the coast of Texas on Sept. 13, 2008, damaging facilities and equipment of several state agencies and universities. The University of Texas Medical Branch at Galveston reported a net impairment loss of \$15.9 million. The University of Texas System reported the loss in operating expenses. Insurance recoveries recognized in fiscal 2009 of \$66.3 million were netted with the loss. The impairment of capital assets was evaluated in accordance with GASB

Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries.*

The schedule above and on the following page presents the composition of the state's capital assets, adjustments, reclassifications, additions and deletions during fiscal 2009. The adjustment column includes assets that were not previously reported, accounting errors and other changes. The reclassifications column shows completed construction projects and transfers of capital assets between agencies. The additions column includes current year purchases and depreciation. The deletions column shows assets removed during the current year.

## Capital Asset Activity (concluded)

For the Fiscal Year Ended August 31, 2009 (Amounts in Thousands)

	Balance 9/1/08	Adjustments	Reclassifications	Additions	Deletions	Balance 8/31/09
<b>BUSINESS-TYPE ACTIVITIES</b>						
<b>Nondepreciable Assets</b>						
Land and Land Improvements	\$ 1,433,552	\$ (828)	\$ 2,616	\$ 41,768	\$	\$ 1,477,108
Infrastructure	1,605,594	(4,305)	21,197			1,622,486
Construction in Progress	1,950,376	(29,782)	(1,443,526)	2,162,404		2,639,472
Other Capital Assets	329,126	22	515	24,868	(123)	354,408
Total Nondepreciable Assets	<u>5,318,648</u>	<u>(34,893)</u>	<u>(1,419,198)</u>	<u>2,229,040</u>	<u>(123)</u>	<u>6,093,474</u>
<b>Depreciable Assets</b>						
Buildings and Building Improvements	16,577,006	3,428	1,137,687	151,803	(89,637)	17,780,287
Infrastructure	1,146,666	(6,156)	43,537	6,388	(45)	1,190,390
Facilities and Other Improvements	1,152,969	(4,943)	153,458	13,856	(2,583)	1,312,757
Furniture and Equipment	3,867,652	9,947	77,249	404,961	(173,721)	4,186,088
Vehicles, Boats and Aircraft	207,135	(25)	88	19,174	(11,213)	215,159
Other Capital Assets	1,260,746	(857)	7,335	59,766	(11,890)	1,315,100
Total Depreciable Assets at Historical Cost	<u>24,212,174</u>	<u>1,394</u>	<u>1,419,354</u>	<u>655,948</u>	<u>(289,089)</u>	<u>25,999,781</u>
Less Accumulated Depreciation for:						
Buildings and Building Improvements	(7,109,277)	972		(607,860)	14,581	(7,701,584)
Infrastructure	(432,979)	621		(38,919)	45	(471,232)
Facilities and Other Improvements	(502,607)	(2,241)		(43,350)	2,583	(545,615)
Furniture and Equipment	(2,519,761)	(1,183)	(238)	(393,070)	151,274	(2,762,978)
Vehicles, Boats and Aircraft	(141,829)	55	21	(17,619)	10,795	(148,577)
Other Capital Assets	(782,794)	6,293		(60,761)	7,266	(829,996)
Total Accumulated Depreciation**	<u>(11,489,247)</u>	<u>4,517</u>	<u>(217)</u>	<u>(1,161,579)</u>	<u>186,544</u>	<u>(12,459,982)</u>
Depreciable Assets, Net	<u>12,722,927</u>	<u>5,911</u>	<u>1,419,137</u>	<u>(505,631)</u>	<u>(102,545)</u>	<u>13,539,799</u>
Business-Type Activities Capital Assets, Net	<u>\$ 18,041,575</u>	<u>\$ (28,982)</u>	<u>\$ (61)</u>	<u>\$ 1,723,409</u>	<u>\$ (102,668)</u>	<u>\$ 19,633,273</u>
<b>COMPONENT UNITS</b>						
<b>Nondepreciable Assets</b>						
Land and Land Improvements	\$ 3,469	\$	\$	232	\$	\$ 3,701
Construction in Progress	2,556		(8,364)	6,035		227
Total Nondepreciable Assets	<u>6,025</u>	<u>0</u>	<u>(8,364)</u>	<u>6,267</u>	<u>0</u>	<u>3,928</u>
<b>Depreciable Assets</b>						
Buildings and Building Improvements	40,355			1,154		41,509
Facilities and Other Improvements	409	6		27		442
Furniture and Equipment	35,845	(1,294)	8,364	3,006	(2,554)	43,367
Vehicles, Boats and Aircraft	21,236	6,145		3,257	(14,023)	16,615
Other Capital Assets	2					2
Total Depreciable Assets at Historical Cost	<u>97,847</u>	<u>4,857</u>	<u>8,364</u>	<u>7,444</u>	<u>(16,577)</u>	<u>101,935</u>
Less Accumulated Depreciation for:						
Buildings and Building Improvements	(9,412)			(16)		(9,428)
Facilities and Other Improvements	(262)	268		(47)		(41)
Furniture and Equipment	(23,787)	1,863		(4,565)	2,360	(24,129)
Vehicles, Boats and Aircraft	(16,217)	(6,144)		(2,157)	12,317	(12,201)
Other Capital Assets	(2)					(2)
Total Accumulated Depreciation	<u>(49,680)</u>	<u>(4,013)</u>	<u>0</u>	<u>(6,785)</u>	<u>14,677</u>	<u>(45,801)</u>
Depreciable Assets, Net	<u>48,167</u>	<u>844</u>	<u>8,364</u>	<u>659</u>	<u>(1,900)</u>	<u>56,134</u>
Component Units Capital Assets, Net	<u>\$ 54,192</u>	<u>\$ 844</u>	<u>\$ 0</u>	<u>\$ 6,926</u>	<u>\$ (1,900)</u>	<u>\$ 60,062</u>
<b>** Depreciation expense was charged to Business-Type Activities as follows:</b>						
Colleges and Universities		\$ 1,139,590				
Texas Department of Transportation Turnpike Authority		17,038				
Other Business-Type Activities		4,951				
Total Business-Type Activities Depreciation Expense		<u>\$ 1,161,579</u>				



## Note 3

### Deposits, Investments and Repurchase Agreements

#### LEGAL AND CONTRACTUAL PROVISIONS

##### Authority for Investments

All monies in funds established in the Comptroller of Public Accounts Treasury Operations Division (Treasury) by the state Constitution or by an act of the Legislature are pooled for investment purposes. State statutes authorize the Treasury to invest state funds in fully collateralized time deposits, direct security repurchase agreements, reverse repurchase agreements, obligations of the United States and its agencies and instrumentalities, bankers' acceptances, commercial paper and contracts written by the Comptroller, which are commonly known as covered call options.

The Treasury obtains direct access to the services of the Federal Reserve System through the Texas Treasury Safekeeping Trust Company (Trust Company). The Federal Reserve Bank requires that the Trust Company maintain a positive cash balance in the account during and at the end of the day. The Trust Company met those requirements throughout fiscal 2009. The Trust Company safekeeps U.S. Government securities in book-entry form for the major investment funds, safekeeps collateral pledged to secure deposits of the Treasury in financial institutions and acts as trustee for other public bodies to hold and manage funds on their behalf.

Certain state agencies, component units, public employee retirement systems and colleges and universities are authorized to invest funds not deposited with the Treasury. At Aug. 31, 2009, Teacher Retirement System of Texas (TRS), permanent school fund (PSF), Employees Retirement System of Texas (ERS) and University of Texas System (UT) reported over 80 percent of the total investment fair value. TRS, PSF, ERS and UT make investments following the "prudent investor rule." Authorized investments include equities, fixed income obligations, cash equivalents and other investments.

##### Collateralization

State law requires that all Treasury funds deposited in financial institutions above the amounts insured by the Federal Deposit Insurance Corporation be fully collateralized by pledging, to the Treasury, securities valued at market excluding accrued interest. Generally, the list of eligible securities includes all United States Treasury obligations, most agency obligations and securities issued by state agencies and political subdivisions within the state. All securities pledged to the Treasury must be held by a third-party bank doing business in the state through a main office or one or more branches, any Federal Reserve Bank, the Trust Company, any Federal Home Loan Bank or in the vault of the Treasury. During fiscal 2009 no depository holding state funds failed.

State agencies and institutions of higher education with deposits of public funds that are not managed by the Treasury are required to secure deposits through collateral pledged by depository banks and savings and loan institutions. Eligible collateral securities are prescribed by state law; however, retirement systems are exempt by statute from this requirement.

##### External Investment Pool

The Texas government investment pool (TexPool) trust fund is reported as an external investment trust fund. A separate report for TexPool can be obtained from the Trust Company.

##### Deposits

At Aug. 31, 2009, the carrying amount of deposits for governmental and business-type activities, fiduciary funds and discretely presented component units was \$1 billion, \$219.7 million and \$67.1 million, respectively. These amounts consist of all cash in local banks and a portion of short-term investments. These amounts are included on the combined statement of net assets as part of the "Cash and Cash Equivalents," "Securities Lending Collateral" and "Investments" accounts. At Aug. 31, 2009, the total bank balance for governmental and business-type activities, fiduciary funds and discretely presented component units was \$1.1 billion, \$216 million and \$66.5 million, respectively.



**Custodial Credit Risk:** Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, deposits or collateral securities that are in the possession of an outside party will not be recovered. There is no formal deposit policy for managing custodial credit risk. The state's securities lending programs are subject to custodial credit risk. This type of risk is inherent to the securities lending programs. At Aug. 31, 2009, the bank balances exposed to custodial credit risk are as follows.

Bank Balances Exposed to Custodial Credit Risk		
August 31, 2009 (Amounts in Thousands)		
	Uninsured and Uncollateralized	Uninsured and Collateralized with Securities Held by the Pledging Financial Institution
<b>GOVERNMENTAL ACTIVITIES</b>		
Permanent School Fund	\$ 908	\$
Total Governmental Activities	908	0
<b>BUSINESS-TYPE ACTIVITIES</b>		
Colleges and Universities	406	89,814
Other Nonmajor Funds	147	
Total Business-Type Activities	553	89,814
Total Governmental and Business-Type Activities	\$ 1,461	\$ 89,814
<b>FIDUCIARY</b>	\$ 101,891	\$ 0
<b>COMPONENT UNITS</b>	\$ 45	\$ 0

**Foreign Currency Risk:** Foreign currency risk for bank balances is the risk that changes in exchange rates will adversely affect the deposit. There is no formal deposit policy for managing foreign currency risk. Foreign currency deposits are intended for settlement of pending international investment trades. At Aug. 31, 2009, the bank balances exposed to foreign currency risk are as follows.

Bank Balances Exposed to Foreign Currency Risk		
August 31, 2009 (Amounts in Thousands)		
	Governmental and Business-Type Activities	Pension and Other Employee Benefit Trust Funds
Australian Dollar	\$ 49	\$ 1,207
Brazilian Real	29	1,310
Canadian Dollar	24	2,783
Chilean Peso	95	184
Colombian Peso		52
Danish Krone		1,155
Egyptian Pound	13	268
Euro	218	2,257
Hong Kong Dollar		836
Hungarian Forint		24
Indian Rupee		292
Indonesian Rupiah		95
Japanese Yen	134	1,369
Malaysian Ringgit	15	28
Mexican Peso		173
New Israeli Shekel		14
New Taiwan Dollar	394	19,558
New Turkish Lira		(233) *
New Zealand Dollar	1	
Norwegian Krone		81
Pakistani Rupee		163
Peruvian Nuevo Sol		42
Philippine Peso		47
Polish Zloty		71
Pound Sterling	37	64,305
Qatar Riyal	380	
Singapore Dollar	1	602
South African Rand	47	848
South Korean Won		2,009
Swedish Krona		423
Swiss Franc	1	484
Thai Baht	20	137
Total	\$ 1,458	\$ 100,584

\* Balance is related to the timing of trade settlement.



## Investment Fair Value

August 31, 2009 (Amounts in Thousands)

	Governmental and Business-Type Activities	Fiduciary	Component Units
U.S. Treasury	\$ 10,311,901	\$ 9,160,683	\$ 310,609
U.S. Treasury Strips	192,735	46,988	
U.S. Treasury TIPS	157,316	6,156,761	
U.S. Government Agency	15,132,618	9,336,334	725,623
Corporate Obligations	2,918,895	3,253,329	120,846
Corporate Asset and Mortgage Back	2,345,618	5,976,707	290,514
Corporate Equity	11,755,215	32,219,577	
International Obligations	992,514	2,881,739	547
International Equity	5,430,425	23,531,455	
International Other Commingled Funds	412,929	1,168,144	
Repurchase Agreements	1,992,738	11,120,679	99,807
Fixed Income and Bond Mutual Fund	3,303,582	1,013,429	10,079
Other Mutual Funds	1,626,129	644,164	35,588
Other Commingled Funds	2,368,464	2,020,914	6,125
Commercial Paper	356,151	449,578	
Securities Lending Collateral Pool	2,354,167	25,235,704	
Securities Lending Collateral Investment Pool	414,970		
Real Estate	2,212,607		
Externally Managed Investments	16,610,151	18,122,672	
Other Investments	2,309,140	2,254,592	40,494
Total Investments	<u>\$ 83,198,265</u>	<u>\$ 154,593,449</u>	<u>\$ 1,640,232</u>

### Investments

The fair value of the investments is determined from published market prices, quotations from major investment brokers or independent pricing services. In general, the fair value of fixed income securities is based on yields currently available on comparable securities of issuers with similar credit ratings or on prices from fixed income pricing services or external broker quotes. The changes in the fair value of investments are reported as revenue in the operating statements.

Where no readily ascertainable market value exists (including private equity), fair values can be determined in consultation with investment advisors and Master Trust Custodians or based on the capital account balance at the closest available reporting period, as communicated by the general partner, adjusted for subsequent contributions, distributions, management fees and reserves.

Investments in money market investments are reported at amortized cost, which approximates market value. Participating interest-earning investment contracts that have a remaining maturity at the time of purchase of one year or less may also be reported at amortized cost, provided that the fair value of those investments is not significantly affected by the impairment of the credit standing of the issuer or by other factors.

The investments at Aug. 31, 2009, are shown in the table to the left.

TRS, PSF, ERS and UT participate in individual securities lending programs. Cash collateral received by the lending agent on behalf of each entity is invested in a non-commingled pool exclusively for the benefit of the individual entity. Additional information about the securities

lending activity is disclosed in the "Securities Lending" section of this note. At Aug. 31, 2009, the investment type balances for the invested securities lending cash collateral are shown below.

## Invested Securities Lending Collateral Fair Value

August 31, 2009 (Amounts in Thousands)

	Governmental and Business-Type Activities	Fiduciary
U.S. Treasury	\$ 136,584	\$ 1,540,527
U.S. Treasury TIPS	98	1,227
U.S. Government Agency	7,486	93,535
Corporate Obligations	512,279	2,913,849
Corporate Asset and Mortgage Back	205,690	8,623,902
Corporate Equity		1,172,090
International Equity	10,693	371,435
Repurchase Agreements	1,397,764	5,114,168
Commercial Paper	54,095	313,737
Other Investments	29,478	5,091,234
Total Investments	<u>\$ 2,354,167</u>	<u>\$ 25,235,704</u>

**Custodial Credit Risk:** Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty, the value of its investments or collateral securities that are in the possession of an outside party will not be recovered. There is no formal investment policy for

managing custodial credit risk. Consistent with the securities lending program, underlying securities on loans are subject to custodial credit risk.

At Aug. 31, 2009, the investments exposed to custodial credit risk are as follows.

Investments Exposed to Custodial Credit Risk		
August 31, 2009 (Amounts in Thousands)		
	Fair Value that is Uninsured and Unregistered with Securities Held by the Counterparty	Fair Value that is Uninsured and Unregistered with Securities Held by the Counterparty's Trust Department or Agent but Not in the State's Name
<b>GOVERNMENTAL ACTIVITIES</b>		
Permanent School Fund		
Corporate Obligations	\$	\$ 478,975
Corporate Asset and Mortgage Back		205,335
Repurchase Agreements		1,144,638
Total Governmental Activities	0	1,828,948
<b>BUSINESS-TYPE ACTIVITIES</b>		
Colleges and Universities		
Corporate Equity	1,599	2,357
U.S. Government Agency	15,580	
Corporate Asset and Mortgage Back		675
Fixed Income Money Market and Bond Mutual Fund	3,574	
Other Commingled Funds	19,949	
Miscellaneous	1,001	
Other Proprietary Funds		
U.S. Treasury		5
U.S. Government Agency		2,000
Repurchase Agreements		114,999
Total Business-Type Activities	41,703	120,036
Total Governmental and Business-Type Activities	\$ 41,703	\$ 1,948,984
<b>FIDUCIARY</b>		
Pension and Other Employee Benefit Trust Funds		
U.S. Treasury	\$	\$ 60
U.S. Government Agency	2,895	41,886
Corporate Obligations		2,714,262
Corporate Asset and Mortgage Back		8,619,467
Corporate Equity		3,003
International Equity		15,781
Repurchase Agreements		5,114,168
Commercial Paper		313,737
Miscellaneous		5,091,235
Total Fiduciary	\$ 2,895	\$ 21,913,599
<b>COMPONENT UNITS</b>		
U.S. Treasury	\$ 8,739	\$
Total Component Units	\$ 8,739	\$ 0

**Foreign Currency Risk:** Foreign currency risk for investments is the risk that changes in exchange rates will adversely affect the investment. TRS, PSF, ERS and UT have exposure to investment foreign currency risk. TRS manages the risk of holding investments in foreign currencies through asset allocation limits on various international

investments. PSF and ERS do not have an investment policy for managing foreign currency risk. UT's investment policy has no limitation on investments in non-U.S. denominated bonds or common stocks.

At Aug. 31, 2009, the investments exposed to foreign currency risk are as follows.

## Investments Exposed to Foreign Currency Risk

August 31, 2009 (Amounts in Thousands)

	Governmental and Business-Type Activities				Fiduciary		
	International Obligations	International Equity	Other Commingled Funds*	Other Investments	International Obligations	International Equity	Other Investments*
Argentine Peso	\$	\$ 21	\$	\$	\$	\$	\$
Australian Dollar	111,431	279,655	1,288		11,992	990,268	
Botswana Pula						3,712	
Brazilian Real	21,545	149,471	312		1,947	661,934	
Canadian Dollar	48,452	307,874	1,011	2,424	69,526	946,104	
Chilean Peso		6,622				38,777	
Chinese Yuan		2,828					
Colombian Peso		217			455	4,750	
Croatian Kuna						4,406	
Czech Koruna		6,278	120			52,997	
Danish Krone	404	31,638	(3,857)			70,162	
Egyptian Pound		8,697				42,141	
Euro	232,082	1,230,617	(115,891)	325,833	1,128,180	5,037,844	1,189,381
Ghanaian Cedi						1,290	
Hong Kong Dollar	1,553	393,062	(6,812)			1,420,238	
Hungarian Forint		8,578	104		1,754	61,353	
Indian Rupee		1,408	2,508			106,415	
Indonesian Rupiah	15,041	23,041	38		1,819	161,963	
Japanese Yen	19,671	801,287	718		276,684	3,095,112	
Jordanian Dinar						4,498	
Kenyan Shilling						4,377	
Lithuanian Litas						4,414	
Malaysian Ringgit	34,811	32,824	42		3,009	109,097	
Mauritius Rupee						4,204	
Mexican Peso	21,033	46,744	14		2,630	227,549	
Moroccan Dirham		2,911	41			6,632	
New Israeli Shekel	6,017	13,594	36			87,435	
New Taiwan Dollar		76,480	996			481,947	
New Turkish Lira		21,100	164		2,656	196,421	
New Zealand Dollar	33,913	3,935	93			5,104	
Nigerian Naira						3,258	
Norwegian Krone	18,557	20,841				139,639	
Pakistani Rupee		2,043				9,234	
Peruvian Nuevo Sol					411	2,996	
Philippine Peso		6,340	13			16,325	
Polish Zloty	28,805	13,767	106	50	2,596	71,817	
Pound Sterling	49,610	747,346	(9,636)	1,938	798,367	3,056,589	32,302
Qatar Riyal						6,875	
Russian Ruble		5,440					
Singapore Dollar		68,369	39			226,325	
South African Rand	10,327	79,603	7		2,513	538,997	
South Korean Won		150,581	31			693,630	
Swedish Krona	37,330	79,719	27		98,800	242,435	
Swiss Franc		282,857	(50,911)			1,079,919	(194)
Thai Baht		27,351	10		1,004	129,611	
Total	<u>\$ 690,582</u>	<u>\$ 4,933,139</u>	<u>\$ (179,389)</u>	<u>\$ 330,245</u>	<u>\$ 2,404,343</u>	<u>\$ 20,048,794</u>	<u>\$ 1,221,489</u>

\* Includes investment receivables and payables related to spot currency transactions and swaps.

**Credit Risk:** Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. This is measured by the assignment of a rating by a nationally recognized statistical rating organization (NRSRO).

TRS' investment policy establishes tracking error limits that are intended to reduce the tracking error of the asset class. In addition, the policy states that for over-the-counter derivatives, the minimum credit rating, based on a NRSRO, must be at least A- or better at the inception of the contract. For any counterparty that experiences deterioration in credit quality that results in a NRSRO rating below the A- level subsequent to the inception of the contract, additional eligible collateral must be posted. Repurchase agreements may not exceed 5 percent of the market value of the total investment portfolio, including cash and cash equivalents, unless those transactions are covered by a third-party indemnifica-

tion agreement by an organization that bears a long-term NRSRO credit rating of A- or better and is enhanced by acceptable collateral. A securities lending agent must be an organization rated A- or better by a NRSRO.

PSF's investment policy requires investments to adhere to specific Standard & Poor's rating guidelines. Fixed income securities must be rated at least BBB- and short-term money market instruments must be rated at least A-1.

ERS' general investment policy requires that noncash interest paying securities in the high yield bond portfolios not exceed 15 percent of the market value of the portfolio and that investments in money market funds represent no more than 5 percent of each individual fund.

UT's investment policy has no requirements or limitations for investment ratings.

At Aug. 31, 2009, the credit quality distribution for securities with credit risk exposure is as follows.

## Investments Exposed to Credit Risk

August 31, 2009 (Amounts in Thousands)

	AAA	AA	A	BBB	BB	B	CCC	CC	C	D	NR
<b>GOVERNMENTAL ACTIVITIES</b>											
U.S. Government Agency	\$ 6,086,045	\$ 81,344	\$	\$	\$	\$	\$	\$	\$	\$	\$ 3,710,939
Corporate Obligations	218,726	569,776	916,322	395,292	65,122	18,305	17,029		511		1,608
Corporate Asset and Mortgage Back	1,534,520	44,854	23,662	49,510	8,341		9,466			11	30,203
International Obligations			21,762		1,796	1,958					750
Repurchase Agreements	1,014,710										1,144,638
Other Investments	66,454	8,319									18,188
Total Governmental Activities	8,920,455	704,293	961,746	444,802	75,259	20,263	26,495	0	511	11	4,906,326
<b>BUSINESS-TYPE ACTIVITIES</b>											
U.S. Government Agency	4,153,814										160,290
Corporate Obligations	83,770	134,110	460,341	350,921	64,080	53,662	6,310		1,464		12,595
Corporate Asset and Mortgage Back	406,183	17,824	31,354	9,092	14,336	1,528	118,219	6,069		2,524	80,392
International Obligations	502,359	95,010	165,535	87,599	15,031	6,046	1,470				93,198
Repurchase Agreements	1,125,007		114,999								499,148
Externally Managed Investments											159,758
Other Investments	49,549	672,185	22,598	16,583	14,460	105,154					122,839
Total Business-Type Activities	6,320,682	919,129	794,827	464,195	107,907	166,390	125,999	6,069	1,464	2,524	1,128,220
<b>GOVERNMENTAL AND BUSINESS-TYPE ACTIVITIES</b>											
U.S. Government Agency	10,239,859	81,344									3,871,229
Corporate Obligations	302,496	703,886	1,376,663	746,213	129,202	71,967	23,339		1,975		14,203
Corporate Asset and Mortgage Back	1,940,703	62,678	55,016	58,602	22,677	1,528	127,685	6,069		2,535	110,595
International Obligations	502,359	95,010	187,297	87,599	16,827	8,004	1,470				93,948
Repurchase Agreements	2,139,717		114,999								1,643,786
Externally Managed Investments											159,758
Other Investments	116,003	680,504	22,598	16,583	14,460	105,154					141,027
Total Governmental and Business-Type Activities	\$ 15,241,137	\$ 1,623,422	\$ 1,756,573	\$ 908,997	\$ 183,166	\$ 186,653	\$ 152,494	\$ 6,069	\$ 1,975	\$ 2,535	\$ 6,034,546

Continued on the following page

## Investments Exposed to Credit Risk (continued)

August 31, 2009 (Amounts in Thousands)

	AAA	AA	A	BBB	BB	B	CCC	CC	C	D	NR
<b>FIDUCIARY</b>											
U.S. Government Agency	\$ 10,031,327	\$	\$ 3	\$	\$	\$	\$	\$	\$	\$	\$ 270,339
Corporate Obligations	187,911	1,949,807	2,582,065	810,152	212,428	188,872	37,104	4,824	9,035	8,321	104,442
Corporate Asset and Mortgage Back	8,582,103	479,496	2,596,146	65,220	50,524	126,143	551,339			135	235,877
International Obligations	1,666,732	218,300	506,676	135,969	60,096	4,094		15,466			274,406
Repurchase Agreements	8,952,716		6,519,422								
Other Investments	930,734	496,944	5,178,341								366,987
Total Fiduciary	<u>\$ 30,351,523</u>	<u>\$ 3,144,547</u>	<u>\$ 17,382,653</u>	<u>\$ 1,011,341</u>	<u>\$ 323,048</u>	<u>\$ 319,109</u>	<u>\$ 588,443</u>	<u>\$ 20,290</u>	<u>\$ 9,035</u>	<u>\$ 8,456</u>	<u>\$ 1,252,051</u>
<b>COMPONENT UNITS</b>											
U.S. Government Agency	\$ 674,580	\$ 19,688	\$	\$	\$	\$	\$	\$	\$	\$	\$ 47,060
Corporate Obligations	104,105	5,575	10,542	624							
Corporate Asset and Mortgage Back	289,754										760
International Obligations			547								
Repurchase Agreements	27,118								66,191		6,497
Other Investments		5,037	30,126								
Total Component Units	<u>\$ 1,095,557</u>	<u>\$ 30,300</u>	<u>\$ 41,215</u>	<u>\$ 624</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 66,191</u>	<u>\$ 0</u>	<u>\$ 54,317</u>

Concluded below

## Investments Exposed to Credit Risk (concluded)

August 31, 2009 (Amounts in Thousands)

	AAAf	AAAm	Aaf	Af	CCcf	NR
<b>GOVERNMENTAL ACTIVITIES</b>						
Fixed Income and Bond Mutual Fund	<u>\$ 1,414,924</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$ 196,148</u>
<b>BUSINESS-TYPE ACTIVITIES</b>						
Fixed Income and Bond Mutual Fund	<u>2,146,442</u>	<u>453,489</u>	<u>70,538</u>	<u>709</u>	<u>8,368</u>	<u>205,281</u>
<b>GOVERNMENTAL AND BUSINESS-TYPE ACTIVITIES</b>						
Fixed Income and Bond Mutual Fund	<u>\$ 3,561,366</u>	<u>\$ 453,489</u>	<u>\$ 70,538</u>	<u>\$ 709</u>	<u>\$ 8,368</u>	<u>\$ 401,429</u>
<b>FIDUCIARY</b>						
Fixed Income and Bond Mutual Fund	<u>\$ 204,406</u>	<u>\$</u>	<u>\$ 13,230</u>	<u>\$</u>	<u>\$</u>	<u>\$ 359,884</u>
<b>COMPONENT UNITS</b>						
Fixed Income and Bond Mutual Fund	<u>\$ 35,588</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$ 10,079</u>
	<u>A-1</u>	<u>NR</u>				
<b>GOVERNMENTAL ACTIVITIES</b>						
Commercial Paper	<u>\$</u>	<u>\$ 2,541</u>				
<b>BUSINESS-TYPE ACTIVITIES</b>						
Commercial Paper	<u>306,922</u>	<u>70,747</u>				
<b>GOVERNMENTAL AND BUSINESS-TYPE ACTIVITIES</b>						
Commercial Paper	<u>\$ 306,922</u>	<u>\$ 73,288</u>				
<b>FIDUCIARY</b>						
Commercial Paper	<u>\$ 733,559</u>	<u>\$</u>				

**Concentration of Credit Risk:** Concentration of credit risk is the risk of loss attributed to the magnitude of the investment in a single issuer. At Aug. 31, 2009, more than 5 percent of investments held by governmental activities were in securities issued by the Federal Home Loan Bank, the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation. These holdings were the result of the governmental activities' participation in the Treasury's internal investment pool. The Treasury places no limit on the amount it may invest in any one issuer.

**Interest Rate Risk:** Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. TRS and PSF use the effective weighted duration method to identify and manage interest rate risk. ERS and UT use the modified duration method.

Duration is a measure of the price sensitivity of a debt investment to changes arising from movements in interest rates. Duration is the weighted average maturity of an instrument's cash flows, where the present value of the cash flows serves as the weights. The duration of an instrument can be calculated by first multiplying the time until receipt of cash flow by the ratio of the present value of that cash flow to the instrument's total present value. The sum of these weighted time periods is the duration of the instru-

ment. Effective duration extends this analysis to incorporate an option adjusted measure of an instrument's sensitivity to changes in interest rates. It incorporates the effect of embedded options for corporate bonds and changes in prepayments for mortgage backed securities. Modified duration estimates the sensitivity of the fund's investments to changes in interest rates.

The investment policy of PSF mandates the average duration of the fixed income portfolio be consistent with the Barclay Aggregate Index's (formerly Lehman Bros. Aggregate Index) duration. At Aug. 31, 2009, the Barclay Aggregate Index duration was 4.35 years. The maximum maturity for invested securities lending collateral is 397 days except for bank time deposits, which is 60 days, bankers' acceptances, which is 45 days, reverse repurchase agreements, which is 180 days, and floating rate securities, which is three years. The maximum weighted average maturity of the entire collateral portfolio must be 180 days. The maximum weighted average interest rate exposure of the entire collateral portfolio must be 60 days. TRS, ERS and UT do not have a formal investment policy for managing interest rate risk.

At Aug. 31, 2009, PSF's investments by investment type, fair value and the effective weighted duration rate are as follows.

Investments Exposed to Interest Rate Risk		
August 31, 2009		
PSF Investment Type	Fair Value (in Thousands)	Effective Weighted Duration Rate
Asset Backed Securities	\$ 28,716	4.84
Commercial Mortgage Backed Securities	285,922	5.19
Corporate Obligations	813,755	5.74
Yankee – Corporate Obligations	102,532	4.87
Non Agency Mortgage Backed Securities	111,251	0.01
Private Placements - Corporate	14,005	4.77
Private Placements - Government	26,875	6.21
U.S. Government Agency Mortgage Backed Securities	1,758,672	2.70
U.S. Government Agency Obligations	792,499	5.21
U.S. Treasury Securities	367,010	4.51
U.S. Treasury Strips	27,973	16.82
U.S. Treasury TIPS	142,408	3.14
Total Fixed Income	<u>\$ 4,471,618</u>	<u>4.13</u>

The following provides information about PSF's interest rate risks and maturities associated with its invested securities lending collateral by investment type.

Invested Securities Lending Collateral Exposed to Interest Rate Risk			
August 31, 2009 (Amounts in Thousands)			
PSF Investment Type	Fair Value	Investment Maturities in Less Than One Year	Investment Maturities Greater Than One Year
Asset Backed Floating Rate Notes	\$ 205,335	\$ 205,335	\$
Bank Floating Rate Notes	386,855	386,855	
Corporate Floating Rate Notes	92,120	92,120	
Repurchase Agreements	1,144,639	1,144,639	
Total	<u>\$ 1,828,949</u>	<u>\$ 1,828,949</u>	<u>\$ 0</u>

At Aug. 31, 2009, TRS' investments by investment type, fair value and the effective weighted duration rate are as follows. The effective weighted duration calculation for TRS excludes the high yield limited partnerships, which are pooled instruments and not debt securities.

Investments Exposed to Interest Rate Risk		
August 31, 2009		
TRS Investment Type	Fair Value (In Thousands)	Effective Weighted Duration Rate
U.S. Government Obligations	\$ 11,498,109	7.74
U.S. Government Agency Obligations	20,823	7.64
Asset and Mortgage Backed Obligations	1,295,951	7.22
Corporate Obligations	892,396	7.42
International Government Obligations	2,468,961	7.57
International Corporate Obligations	401,376	5.67
Total Interest Rate Risk Debt Securities	<u>\$ 16,577,616</u>	<u>7.60</u>

At Aug. 31, 2009, ERS' investments by investment type, fair value and the modified duration rate are as follows.

Investments Exposed to Interest Rate Risk				
August 31, 2009				
ERS Investment Type	Fair Value (In Thousands)		Modified Duration Rate	
	Fiduciary Fund	Proprietary Fund	Fiduciary Fund	Proprietary Fund
U.S. Treasury Securities	\$ 2,134,138	\$ 167,614	6.44	6.44
U.S. Treasury TIPS	60,343	4,739	0.37	0.37
U.S. Government Agency Obligations	2,235,809	175,599	3.31	3.31
Corporate Obligations	1,635,091	139,229	5.63	5.75
Corporate Asset and Mortgage Backed Securities	213,539	16,407	3.53	3.54
Cash and Cash Equivalents	1,675,430	264,168	0.01	0.01
Miscellaneous	9,347	734	12.83	12.83
Overall Interest Rate Risk Debt Securities	<u>\$ 7,963,697</u>	<u>\$ 768,490</u>	<u>3.93</u>	<u>3.40</u>



At Aug. 31, 2009, UT's investments by investment type, fair value and the modified duration rate are as follows.

Investments Exposed to Interest Rate Risk		
August 31, 2009		
UT Investment Type	Fair Value (In Thousands)	Modified Duration Rate
<b>INVESTMENTS IN SECURITIES:</b>		
U.S. Government Guaranteed:		
U.S. Treasury Bonds and Notes	\$ 180,721	9.25
U.S. Treasury Strips	11,717	2.09
U.S. Treasury Bills	12,965	0.47
U.S. Treasury Inflation Protected	14,908	3.55
U.S. Agency Asset Backed	80,083	2.22
Total U.S. Government Guaranteed	<u>300,394</u>	<u>6.44</u>
U.S. Government Non-Guaranteed:		
U.S. Agency	12,971	2.57
U.S. Agency Asset Backed	468,772	3.49
U.S. Agency Commercial Paper	5,697	0.22
Total U.S. Government Non-Guaranteed	<u>487,440</u>	<u>3.43</u>
Total U.S. Government	<u>787,834</u>	<u>4.57</u>
Corporate Obligations:		
Domestic	913,746	5.02
Foreign	273,605	4.57
Total Corporate Obligations	<u>1,187,351</u>	<u>4.92</u>
Foreign Government and Provincial Obligations	466,070	6.33
Other Debt Securities	12,904	9.46
Total Debt Securities	<u>2,454,159</u>	<u>5.10</u>
Other Investment Funds – Debt	770,629	5.79
Fixed Income Money Market Funds	1,795,730	0.10
Total Investments in Securities	<u>\$ 5,020,518</u>	<u>3.42</u>

### Investments with Fair Values Highly Sensitive to Interest Rate Changes

In accordance with the applicable investment policies, TRS, PSF, ERS and UT may invest in asset backed and mortgage backed obligations. Mortgage backed obligations are subject to early principal payment in a period of declining interest rates. The resultant reduction in expected cash flows will affect the fair value of these securities. Asset backed obligations are backed by home equity loans, auto loans, equipment loans and credit card receivables. Pre-payments by the obligee of the underlying assets in periods of declining interest rates could reduce or eliminate the stream of income that would have been received. At Aug. 31, 2009, the fair value of investments in asset and mortgage backed obligations highly sensitive to interest rate changes for TRS, PSF, ERS and UT was \$4.7 billion.

### Reverse Repurchase Agreements

Investments in reverse repurchase agreements by the Treasury and the Trust Company are permitted by statute. A reverse repurchase agreement consists of a sale of securities with a simultaneous agreement to repurchase them in the future at the same price plus a contract rate of interest. Sale proceeds are invested in securities or repurchase agreements that mature at or almost at the same time as the reverse repurchase agreement. Proceeds from the matured securities are used to liquidate the agreement resulting in a matched position. With a matched position there is minimal market risk because the seller-borrower will hold the securities to maturity and liquidate them at face value. In the event of default on a reverse repurchase agreement, the Treasury would potentially suffer a loss. The loss occurs if the cash received does not exceed the fair value of the

securities underlying reverse repurchase agreements. The amount of the loss would equal the difference between the fair value plus accrued interest of the underlying securities and the agreement price plus accrued interest. To minimize the risk of default, all securities backing reverse repurchase agreements are held by the Federal Reserve Bank in the state's name.

At Aug. 31, 2009, the Treasury's aggregate amount of reverse repurchase agreement obligations was \$92.4 million including accrued interest. The aggregate fair value of the securities underlying those agreements, including accrued interest, was \$92.8 million. During fiscal 2009 the credit exposure was \$386.3 thousand.

### Securities Lending

TRS, PSF, ERS, UT, the Texas A&M University System (A&M), the Texas General Land Office-Veterans Land Board (GLO-VLB) and the Texas Prepaid Higher Education Tuition Board (TPHETB) participate in securities lending programs as authorized by state statute. TRS, PSF, ERS and UT have established their own separately managed securities lending programs. A&M, GLO-VLB and TPHETB participate in collateral investment pools that commingle the cash collateral of several entities. Under these programs, the governmental entities transfer securities to an independent broker or dealer in exchange for collateral in the form of cash, governmental securities or bank letters of credit. In addition, PSF may receive collateral in the form of other assets that it specifically agrees to with its lending agent. A&M may receive collateral in the form of fixed income securities and repurchase agreements. TRS, ERS, UT and GLO-VLB receive collateral equal to 102 percent of the value of domestic securities lent and 105 percent for international securities. PSF receives collateral in an amount of 102 percent of the fair value plus accrued income for domestic corporate securities and 105 percent of the fair value plus accrued income for foreign securities; except in the case of foreign securities denominated and payable in U.S. dollars, the required percentage is 102 percent. A&M receives collateral of 102 percent of the value of the securities lent. TPHETB receives collateral of 102 percent of the value of domestic

securities lent plus accrued interest and 105 percent plus accrued interest for foreign securities. There is a simultaneous agreement to return the collateral for the same securities in the future.

The securities custodians are the security lending agents. The securities lending contracts do not allow the governmental entities to pledge or sell collateral securities unless the borrower defaults. The lending agents are required to indemnify TRS, PSF, ERS, UT, GLO-VLB and TPHETB if the borrowers fail to return the securities. For A&M, the lending agent is not liable with respect to any losses except to the extent that such losses result from the lending agent's negligence, failure to live up to its contractual responsibilities or willful misconduct.

TRS, GLO-VLB and TPHETB loans are terminable at will. For PSF, maturities are defined by the lending agreement and the loans are terminable at will. For ERS, the relationship between the maturities of investments made with cash collateral generally matched the maturities of the loan agreements. UT manages its investments to maintain an average maturity and overnight liquidity. For A&M, cash collateral is invested in a portfolio with a liquidity target of 20 percent, but does not generally match the maturities of investments with the term maturities of the loan agreements. There were no significant violations of legal or contractual provisions, no borrower or lending agent default losses and no recoveries of prior period losses during the year.

Due to illiquidity in the securities lending market, several securities lending cash collateral pools have experienced declines in the fair value of invested cash collateral. At Aug. 31, 2009, differences between the fair value of the invested cash collateral and the cash collateral liability have been recorded as part of the net increase/(decrease) in fair value of investments. There is no credit risk exposure to the lender when the fair value of the security on loan is less than the cash collateral liability. At Aug. 31, 2009, the overall securities lending activity is summarized on the following page.

## Securities Lending Activity Summary

August 31, 2009 (Amounts in Thousands)

Entity	Fair Value of Securities on Loan	Non-Cash Collateral*	Cash Collateral Liability (Obligation/ Securities Lending)	Fair Value of Invested Cash Collateral (Securities Lending Collateral)	Net Increase/ (Decrease) In Fair Value**
TRS	\$ 21,286,819	\$ 37,024	\$ 21,915,032	\$ 21,852,868	\$ (62,164)
PSF	1,855,811	276	1,937,542	1,828,949	(108,593)
ERS	3,465,979	27,052	3,524,645	3,526,366	1,721
UT	369,479		381,688	381,688	
A&M	74,724		74,802	73,888	(914)
GLO-VLB	98,203		100,014	100,014	
TPHETB	238,849	1,529	244,852	241,068	(3,784)
Total	<u>\$ 27,389,864</u>	<u>\$ 65,881</u>	<u>\$ 28,178,575</u>	<u>\$ 28,004,841</u>	<u>\$ (173,734)</u>

\* Non-cash collateral received for securities lending activities are not recorded as assets because the underlying investments remain under the control of the borrower, except in the event of default.

\*\* UT and GLO-VLB did not experience any net change in fair value because the cash collateral pools they participated in were maintained at amortized cost as of Aug. 31, 2009.

mark-to-market daily with the change in market value recorded as an unrealized gain or loss. Realized gain or loss is recorded at the closing of the contract. Risks associated with such contracts include the potential inability of the counterparties to meet the terms of their contracts and unanticipated movements in the value of the foreign currency relative to the U.S. dollar. At Aug. 31, 2009, TRS, UT and A&M had forward foreign currency contracts unrealized gains and losses of \$9.7 million and \$8.2 million, respectively.

At Aug. 31, 2009, TRS entered into forward contracts for the physical or electronic delivery of a commodity or financial instruments. The unrealized gains and losses were \$9.6 million and \$10.4 million, respectively.

## Derivative Financial Instruments and Investment Funds

Derivatives are financial instruments (securities or contracts) whose value is linked to or “derived” from changes in interest rates, currency rates and stock and commodity prices. These securities or contracts serve as components of certain state agencies, public employee retirement systems and colleges and universities’ investment strategies and are utilized to manage and reduce the risk of the overall investment portfolio. Derivative levels and types are monitored to ensure that portfolio derivatives are consistent with the intended purpose and at the appropriate level. TRS, PSF, ERS, UT, A&M and Texas Tech University System (Tech) invested in derivative instruments (forwards, futures, options, swaps and mortgage derivatives). TRS, PSF, ERS, UT, A&M, Tech, Treasury, University of Houston System (UH) and Stephen F. Austin State University (SFA) invested in other investment funds.

At Aug. 31, 2009, all derivatives instruments were reported at fair value on the statement of net assets and the statement of fiduciary net assets.

**Forwards:** Forward foreign currency exchange contracts are entered for the purchase or sale of a specific foreign currency at a fixed quantity and price on a future date as a hedge against either specific transactions or portfolio positions. The contracts are in the currency native to the security transactions for settlement date and are

**Futures:** Future contracts are used to facilitate various trading strategies, primarily as a tool to hedge against the increase or decrease of market exposure to various asset classes. Future contracts are standardized, exchange-traded contracts to purchase or sell a specific financial instrument at a predetermined price. Upon entering into a future contract, an initial margin deposit is pledged to the broker equal to a percentage of the contract amount. Contracts are mark-to-market, settled in cash with the broker and recorded as an unrealized gain or loss daily. The daily gain or loss difference is referred to as the daily variation margin. Realized gain or loss is recorded at the closing of the contract. Risks associated with such contracts include the potential inability of the counterparties to meet the terms of their contracts, unanticipated movements in the value of the future contracts and the inability to close out future contracts due to a non-liquid secondary market. At Aug. 31, 2009, TRS, PSF, UT and A&M had future contracts balances in notional value and initial margin of \$3.7 billion and \$248.8 million, respectively.

**Options:** Options are used to alter market (systematic) exposure without trading the underlying cash market securities and to hedge and control risks so that the actual risk/return profile is more closely aligned with the target risk/return profile. Option contracts provide the option purchaser with the right, but not the obligation, to buy or sell the

underlying security at a set price during a period or a specified date. The option writer is obligated to buy or sell the underlying security if the option purchaser chooses to exercise the option. With written options, market risk arises from an unfavorable change in the price of the derivative instrument, security or currency underlying the written option. At Aug. 31, 2009, the fair value of written put options for UT was \$401 thousand.

**Swaps:** Swaps are entered primarily to hedge and manage exposures to various risks. Swaps represent contracts that obligate two counterparties to exchange a series of cash flows at specified intervals. The ultimate gain or loss depends upon the price or rate at which the underlying financial instrument of the swap is valued at the settlement date. Risks associated with such contracts include the potential inability of the counterparties to meet the terms of the contracts and unanticipated movements in the value of the underlying assets. At Aug. 31, 2009, the fair value of credit default, equity, inflation, interest rate and total return swap contracts entered by TRS and UT was \$306.1 million.

**Mortgage Derivatives:** Mortgage derivatives are used to manage portfolio duration, enhance portfolio yield and are designed to protect from or expose investors to various types of risks. A type of mortgage derivative, collateralized mortgage obligations (CMOs), is made up of cash flows from principal and interest payments on underlying mortgages. Risks associated with mortgage derivatives include early principal payment reducing the investment value in a period of declining interest rates and the loss from the actual defaults on the underlying mortgages. At Aug. 31, 2009, the fair value of mortgage derivatives for ERS, UT, A&M and Tech was \$665.3 million.

**Investment Funds and Contingent Commitments:** Investment funds include hedge fund pools, private investment pools, public market funds and other alternative investments managed by external investment managers. At Aug. 31, 2009, contractual commitments were also entered to fund various private investments. Risks associated with these investments include investment manager risk, liquidity risk, market risk and leverage risk. Investment manager risk is substantially dependent upon key investment manag-

ers; therefore, the loss of those individuals may adversely impact the return on investment. Also, some investment funds are not subject to regulatory controls. Liquidity may be limited due to imposed lock-up periods, with penalties to redeem units or restricting redemption of shares until a certain period of time has elapsed. Investment funds may employ sophisticated investment strategies using leverage, which could result in the loss of invested capital. At Aug. 31, 2009, TRS, PSF, ERS, UT, A&M, Tech, Treasury, UH and SFA have investments in various investment funds with a fair value of \$34.7 billion and have committed \$20 billion to various private investments.



## Note 4

### Short-Term Debt

On Aug. 19, 2008 (with an issue date of Aug. 28, 2008), \$6.4 billion of the state of Texas Tax and Revenue Anticipation Notes, Series 2008, were sold to coordinate the cash flow of the state for the fiscal year ended Aug. 31, 2009. Issuance of these notes enhanced the state's ability to make timely payment of expenditures payable from the general revenue fund. The Series 2008 notes were repaid during fiscal 2009, bore interest at 3 percent and were priced to yield 1.646 percent.

On Aug. 25, 2009, the Comptroller's office sold approximately \$5.5 billion of the state of Texas Tax and Revenue Anticipation Notes, Series 2009, with an issue date of Sept. 1, 2009, and a maturity date of Aug. 31, 2010. The notes bear interest at 2.5 percent and were priced to yield 0.479 percent. They are not subject to redemption prior to maturity. On Aug. 25, 2009, good faith funds in the amount of \$55 million were received.

During fiscal 2009, the Texas Department of Transportation issued commercial paper under its short-term borrowing program. The commercial paper proceeds are being used to cover temporary funding shortfalls for capital expenditures.

Short-term debt activity for the year ended Aug. 31, 2009, is shown on the following page.

## Short-Term Debt

For the Fiscal Year Ended August 31, 2009  
(Amounts in Thousands)

	Beginning Balance 09/01/08	Issued	Redeemed	Ending Balance 08/31/09
Tax and Revenue				
Anticipation Notes	\$ 6,400,000	\$	\$ 6,400,000	\$
Commercial Paper	190,750	572,445	463,195	300,000
	<u>\$ 6,590,750</u>	<u>\$ 572,445</u>	<u>\$ 6,863,195</u>	<u>\$ 300,000</u>



## Note 5

### Long-Term Liabilities

The long-term liabilities activity for fiscal 2009 is shown in the table below.

### Long-Term Liabilities Activity

For the Fiscal Year Ended August 31, 2009 (Amounts in Thousands)

	Beginning Balance 09/01/08	Additions	Reductions	Ending Balance 08/31/09	Amounts Due Within One Year	Amounts Due Thereafter
<b>GOVERNMENTAL ACTIVITIES</b>						
Claims and Judgments	\$ 186,181	\$ 54,336	\$ 77,559	\$ 162,958	\$ 55,023	\$ 107,935
Capital Lease Obligations	9,622	17	1,566	8,073	1,667	6,406
Employees' Compensable Leave	748,999	763,519	700,534	811,984	482,070	329,914
Notes and Loans Payable	339,590	159,100	348,475	150,215	14,662	135,553
General Obligation Bonds Payable	8,060,709	2,177,380	492,869	9,745,220	331,535	9,413,685
Revenue Bonds Payable	3,444,984	4,990	162,853	3,287,121	175,148	3,111,973
Pollution Remediation Obligation*	365,326	75,536	59,231	381,631	46,812	334,819
Governmental Activities Long-Term Liabilities	<u>\$ 13,155,411</u>	<u>\$ 3,234,878</u>	<u>\$ 1,843,087</u>	<u>\$ 14,547,202</u>	<u>\$ 1,106,917</u>	<u>\$ 13,440,285</u>
<b>BUSINESS-TYPE ACTIVITIES</b>						
Claims and Judgments	\$ 154,791	\$ 775,272	\$ 774,454	\$ 155,609	\$ 103,843	\$ 51,766
Capital Lease Obligations	14,293	955	2,703	12,545	2,408	10,137
Employees' Compensable Leave	618,695	186,712	143,784	661,623	309,721	351,902
Notes and Loans Payable	2,437,267	1,669,081	1,758,534	2,347,814	1,033,420	1,314,394
General Obligation Bonds Payable	2,707,763	424,270	204,880	2,927,153	151,402	2,775,751
Revenue Bonds Payable	13,369,971	2,985,972	867,973	15,487,970	1,905,342	13,582,628
Liabilities Payable From Restricted Assets	3,472,856	405,967	150,462	3,728,361	475,623	3,252,738
Pollution Remediation Obligation*	16	325		341	341	
Business-Type Activities Long-Term Liabilities	<u>\$ 22,775,652</u>	<u>\$ 6,448,554</u>	<u>\$ 3,902,790</u>	<u>\$ 25,321,416</u>	<u>\$ 3,982,100</u>	<u>\$ 21,339,316</u>
<b>COMPONENT UNITS</b>						
Capital Lease Obligations	\$ 165	\$ 296	\$ 186	\$ 275	\$ 164	\$ 111
Employees' Compensable Leave	4,999	3,016	2,653	5,362	3,369	1,993
Notes and Loans Payable	141,658	77,844	86,414	133,088	37,670	95,418
Revenue Bonds Payable	413,034	1,539	82,267	332,306	9,540	322,766
Liabilities Payable From Restricted Assets	87,301	2,359	17,411	72,249		72,249
Component Units Long-Term Liabilities	<u>\$ 647,157</u>	<u>\$ 85,054</u>	<u>\$ 188,931</u>	<u>\$ 543,280</u>	<u>\$ 50,743</u>	<u>\$ 492,537</u>

\* Beginning balances are recorded as restatements due to this being the first year of implementation of GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*.

## Notes and Loans Payable Debt Service Requirements Governmental Activities

(Amounts in Thousands)

Year	Principal	Interest	Total
2010	\$ 14,662	\$ 6,389	\$ 21,051
2011	13,996	5,735	19,731
2012	11,996	5,101	17,097
2013	10,738	4,561	15,299
2014	10,357	4,085	14,442
2015 - 2019	50,241	13,610	63,851
2020 - 2024	28,505	3,944	32,449
2025 - 2029	8,570	901	9,471
2030 - 2034	1,150	12	1,162
Total Requirements	<u>\$ 150,215</u>	<u>\$ 44,338</u>	<u>\$ 194,553</u>

## Notes and Loans Payable Debt Service Requirements Business-Type Activities

(Amounts in Thousands)

Year	Principal	Interest	Total
2010	\$ 1,033,420	\$ 22,140	\$ 1,055,560
2011	294,208	32,370	326,578
2012	4,280	33,788	38,068
2013	4,173	35,608	39,781
2014	3,243	36,748	39,991
2015 - 2019	25,692	228,148	253,840
2020 - 2024	5,365	298,836	304,201
2025 - 2029	79,335	337,431	416,766
2030 - 2034	206,870	301,477	508,347
2035 - 2039	442,592	224,295	666,887
2040 - 2044	516,217	60,995	577,212
Total Requirements	<u>2,615,395</u>	<u>1,611,836</u>	<u>4,227,231</u>
Unamortized Accretion	<u>(267,581)</u>		<u>(267,581)</u>
Total Requirements	<u>\$ 2,347,814</u>	<u>\$ 1,611,836</u>	<u>\$ 3,959,650</u>

## Notes and Loans Payable Debt Service Requirements Component Units

(Amounts in Thousands)

Year	Principal	Interest	Total
2010	\$ 37,670	\$ 4,227	\$ 41,897
2011	18,908	3,435	22,343
2012	11,277	2,957	14,234
2013	12,679	2,514	15,193
2014	13,893	2,115	16,008
2015 - 2019	37,913	4,746	42,659
2020 - 2024	748	182	930
Total Requirements	<u>\$ 133,088</u>	<u>\$ 20,176</u>	<u>\$ 153,264</u>

Notes and loans payable consist of amounts used to purchase capital equipment. Other uses include the acquisition, construction and renovation of other capital assets, including the interim financing of higher education projects; software/database acquisition and development; refinancing of existing debt and the funding of agency specific missions such as economic development projects and pest eradication programs. Debt service requirements for notes and loans payable in the long-term liabilities are shown to the left.

General Obligation Bonds and Revenue Bonds are described in detail in Note 6.

Claims and judgments are payments on behalf of the state, its agencies and employees for various legal proceedings and claims. Tort claims are covered under the Texas Tort Claims Act. Numerous miscellaneous claims are covered under the Miscellaneous Claims Act for legal liabilities against the state for which no appropriation otherwise exists. Individual claims above \$50 thousand or numerous separate claims from the same individual or entity that in total exceed \$50 thousand must be approved by the Legislature before being paid.

Employees' compensable leave is the state's liability for all unused vacation and unpaid overtime accrued by employees, payable as severance pay under specified conditions. This obligation is paid only at the time of termination, usually from the same funding source(s) from which the employee's salary or wage compensation was paid.

Capital lease obligations are described in detail in Note 7.

Long-term liabilities that are associated with the acquisition of restricted assets or long-term liabilities that will be liquidated with restricted assets are classified as liabilities payable from restricted assets.

### Pollution Remediation Obligations

Pollution remediation obligations are recognized in the financial statements for existing pollution sites after the occurrence of one or more of the following events:

- The pollution creates an imminent endangerment to public health or the environment,



- The state is in violation of a pollution prevention-related permit or license,
- The state is named as a potentially responsible party by a regulator,
- The state is named in a lawsuit that compels it to participate in remediation, and/or
- The state has commenced, or legally obligated itself to commence, cleanup activities.

Under applicable accounting standards, estimated expected recoveries from insurance policies and other responsible parties that are not yet realizable in the financial statements reduce the measurement of the pollution remediation obligation liability. A realized or realizable recovery involves the acknowledgment or recognition by the third party of its responsibility. Realized or realizable recoveries are recognized as assets. Recoveries from the federal government are considered to be nonexchange transactions and do not reduce the liability measurement, but are recognized separately as revenues when realizable. As of Aug. 31, 2009, the state is expected to recover \$278 thousand to offset remediation costs related to various contaminated sites.

**Federal Regulatory Cleanup Requirements:** Pollution remediation obligations are associated with projects initiated under federal regulatory requirements. Applicable federal laws and regulations include the Comprehensive Environmental Response, Compensation and Liability Act (also known as Superfund), the National Emissions Standards for Hazardous Air Pollutants and U.S. Environmental Protection Agency Class V Wells regulations.

The Superfund obligation estimates were based on budget projects to cover necessary activities for the upcoming fiscal year, along with estimated costs for future years and phases, plus direct salaries and benefits. Other obligations were calculated based on contractor estimates or historical costs as applicable.

Federal reimbursements are expected to offset a portion of these expected costs. The potential for changes due to price increases or reductions, technology or applicable laws or regulations was incorporated into these estimates.

**State Regulatory Cleanup Requirements:** Other pollution remediation obligations are associated with cleanups

required under state of Texas law. The Texas Commission on Environmental Quality operates as a regulatory agency to ensure that cleanups are conducted within applicable state laws and regulations contained in the Texas Administrative Code, Title 30; Texas Water Code; Texas Health and Safety Code; Texas Occupations Code and Texas Natural Resources Code.

**Other Pollution Remediation Activity:** The following pollution remediation outlays could not be reasonably estimated as of Aug. 31, 2009.

- Texas Tech University relating to pollution remediation activities on land that it owns in Carson County, Texas.
- Texas School for the Blind and Visually Impaired relating to asbestos removal at their Austin campus.



## Note 6

### Bonded Indebtedness

#### DESCRIPTION OF BOND ISSUES

The state of Texas has 476 bond issues outstanding as of Aug. 31, 2009. During fiscal 2009 the state paid \$460.6 million from the general revenue fund for debt service.

#### Bonds Issued and Issues Outstanding

(Amounts in Thousands)

	Bond Issues Outstanding 8/31/09	Bonds Issued
<b>GOVERNMENTAL ACTIVITIES</b>		
General Obligation Bonds	61	\$ 11,629,321
Revenue Bonds	23	3,721,127
Governmental Activities Bond Total	84	15,350,448
<b>BUSINESS-TYPE ACTIVITIES</b>		
General Obligation Bonds	89	3,822,933
Revenue Bonds	278	18,952,737
Business-Type Activities Bond Total	367	22,775,670
<b>COMPONENT UNITS</b>		
Revenue Bonds	25	453,484
Total Bonds	476	\$ 38,579,602



## Changes in Bonds Payable

For the Fiscal Year Ended August 31, 2009 (Amounts in Thousands)

	Bonds Outstanding 9/1/08	Bonds Issued	Bonds Matured or Retired	Bonds Refunded	Bonds Outstanding 8/31/09	Due Within One Year
<b>GOVERNMENTAL ACTIVITIES</b>						
General Obligation Bonds	\$ 8,060,709	\$ 2,177,380	\$ 407,874	\$ 84,995	\$ 9,745,220	\$ 331,535
Revenue Bonds	3,444,984	4,990	162,853		3,287,121	175,148
Governmental Activities Bond Total	<u>11,505,693</u>	<u>2,182,370</u>	<u>570,727</u>	<u>84,995</u>	<u>13,032,341</u>	<u>506,683</u>
<b>BUSINESS-TYPE ACTIVITIES</b>						
General Obligation Bonds	2,707,763	424,270	115,244	89,636	2,927,153	151,402
Revenue Bonds	13,369,971	2,985,972	459,235	408,738	15,487,970	1,905,342
Business-Type Activities Bond Total	<u>16,077,734</u>	<u>3,410,242</u>	<u>574,479</u>	<u>498,374</u>	<u>18,415,123</u>	<u>2,056,744</u>
<b>COMPONENT UNITS</b>						
Revenue Bonds	<u>413,034</u>	<u>1,539</u>	<u>82,267</u>		<u>332,306</u>	<u>9,540</u>
Total Bonds	<u>\$ 27,996,461</u>	<u>\$ 5,594,151</u>	<u>\$ 1,227,473</u>	<u>\$ 583,369</u>	<u>\$ 31,779,770</u>	<u>\$ 2,572,967</u>

## Miscellaneous Bond Information

(Amounts in Thousands)

Description of Issue	Bonds Issued to Date	Range of Interest Rates		Maturities		First Call Date
				First Year	Last Year	
<b>GOVERNMENTAL ACTIVITIES</b>						
General Obligation Bonds	\$ 11,629,321	1.50	8.00	1993	2045	07/01/03
Revenue Bonds	<u>3,721,127</u>	2.50	7.25	1991	2028	02/01/01
Governmental Activities Bond Total	<u>15,350,448</u>					
<b>BUSINESS-TYPE ACTIVITIES</b>						
General Obligation Bonds	3,822,933	1.37	8.06	1995	2047	02/24/94
Revenue Bonds	<u>18,952,737</u>	1.00	15.00	1988	2047	05/04/95
Business-Type Activities Bond Total	<u>22,775,670</u>					
<b>COMPONENT UNITS</b>						
Revenue Bonds	<u>453,484</u>	4.99	7.10	1986	2041	10/08/86
Grand Total	<u>\$ 38,579,602</u>					

# Debt Service Requirements

(Amounts in Thousands)

## GOVERNMENTAL ACTIVITIES

Year	General Obligation Bonds			Revenue Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2010	\$ 318,985	\$ 409,913	\$ 728,898	\$ 168,785	\$ 147,441	\$ 316,226
2011	355,580	429,321	784,901	161,750	140,345	302,095
2012	325,830	414,316	740,146	170,650	133,214	303,864
2013	337,750	399,424	737,174	172,015	125,781	297,796
2014	329,325	386,661	715,986	174,925	118,223	293,148
2015 - 2019	1,246,875	1,760,922	3,007,797	836,385	473,372	1,309,757
2020 - 2024	1,216,735	1,485,276	2,702,011	942,525	260,665	1,203,190
2025 - 2029	1,474,785	1,159,251	2,634,036	562,490	43,956	606,446
2030 - 2034	1,667,555	782,940	2,450,495			0
2035 - 2039	2,261,660	349,091	2,610,751			0
2040 - 2044		720	720			0
2045 - 2049	45,000	144	45,144			0
	<u>9,580,080 *</u>	<u>7,577,979</u>	<u>17,158,059</u>	<u>3,189,525 *</u>	<u>1,442,997</u>	<u>4,632,522</u>
Accretion	(40,817)		(40,817)	(12,002)		(12,002)
Premium	206,166		206,166	109,598		109,598
Discount	(209)		(209)			0
Total	<u>\$ 9,745,220</u>	<u>\$ 7,577,979</u>	<u>\$ 17,323,199</u>	<u>\$ 3,287,121</u>	<u>\$ 1,442,997</u>	<u>\$ 4,730,118</u>

## BUSINESS-TYPE ACTIVITIES

Year	General Obligation Bonds			Revenue Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2010	\$ 151,143	\$ 85,444	\$ 236,587	\$ 1,891,403	\$ 617,569	\$ 2,508,972
2011	145,154	79,786	224,940	465,186	592,464	1,057,650
2012	119,642	75,728	195,370	475,485	571,539	1,047,024
2013	122,287	72,274	194,561	507,777	549,467	1,057,244
2014	128,065	68,797	196,862	535,561	525,893	1,061,454
2015 - 2019	689,746	285,682	975,428	3,016,145	2,230,930	5,247,075
2020 - 2024	602,620	191,295	793,915	2,683,830	1,590,664	4,274,494
2025 - 2029	391,560	119,679	511,239	2,434,044	1,051,317	3,485,361
2030 - 2034	439,080	48,405	487,485	1,958,921	651,254	2,610,175
2035 - 2039	117,820	17,650	135,470	1,641,181	374,743	2,015,924
2040 - 2044	15,905	2,982	18,887	877,041	103,799	980,840
2045 - 2049	3,995	416	4,411	67,975	3,910	71,885
	<u>2,927,017 *</u>	<u>1,048,138</u>	<u>3,975,155</u>	<u>16,554,549 *</u>	<u>8,863,549</u>	<u>25,418,098</u>
Accretion	(3,000)		(3,000)	(1,321,946)		(1,321,946)
Premium	3,136		3,136	327,742		327,742
Discount			0	(17,734)		(17,734)
Loss on Refunding			0	(54,641)		(54,641)
Total	<u>\$ 2,927,153</u>	<u>\$ 1,048,138</u>	<u>\$ 3,975,291</u>	<u>\$ 15,487,970</u>	<u>\$ 8,863,549</u>	<u>\$ 24,351,519</u>

## COMPONENT UNITS

Year	Revenue Bonds		
	Principal	Interest	Total
2010	\$ 7,602	\$ 10,108	\$ 17,710
2011	3,735	14,038	17,773
2012	3,974	13,829	17,803
2013	4,207	13,612	17,819
2014	4,474	13,383	17,857
2015 - 2019	25,440	62,964	88,404
2020 - 2024	34,341	54,935	89,276
2025 - 2029	109,952	42,869	152,821
2030 - 2034	70,736	25,884	96,620
2035 - 2039	52,996	6,073	59,069
2040 - 2044	2,210	58	2,268
	<u>319,667 *</u>	<u>257,753</u>	<u>577,420</u>
Premium	12,639		12,639
Total	<u>\$ 332,306</u>	<u>\$ 257,753</u>	<u>\$ 590,059</u>

\* Increase/Decrease is due to accretion adjustment on deep discount bonds, premium, discount and/or loss on refunding.

## General Obligation Bonds – General Comments

The Texas Constitution authorizes the state to issue several types of general obligation bonds. Each issue of general obligation bonds is designed to be self-supporting from a primary revenue source related to the program being financed, except for the general obligation bonds of the Texas Public Finance Authority, the Texas Water Development Board and the Constitutional Appropriation Bonds.

The purpose and primary pledged revenue sources of each type of general obligation bond are summarized below.

The **Texas Higher Education Coordinating Board** issues bonds for educational loans to eligible Texas college students. Payments received on the loan contracts are applied to debt service on the bonds.

The **Texas Parks and Wildlife Department** issues bonds to finance the acquisition and development of state park sites. Park entrance fees and investment earnings are applied to debt service on the bonds.

The **Texas Public Finance Authority** issues general obligation bonds to finance the acquisition, construction or renovation of buildings for the use of state agencies and institutions. The Texas Public Finance Authority is also authorized to issue general obligation bonds to assist local government economic development projects to enhance the value of military facilities. The bonds are payable from state appropriations.

The **Texas Water Development Board** issues bonds to provide financial assistance to political subdivisions for water development, water quality enhancement projects and flood control projects. Debt service payments are funded by principal and interest received on loans to political subdivisions, repayments of purchased water storage contracts and earnings on temporary investments.

The **Texas General Land Office – Veterans Land Board** issues bonds to provide funds to loan to eligible Texas veterans for the purchase of land, housing or home improvements. Principal and interest payments on loans, plus investment earnings, are the primary source of repayment for bonds.

The **Texas Department of Transportation**, through the Texas mobility fund, issues general obligation bonds to pay or reimburse the state highway fund for the payment of part of the costs of constructing, reconstructing, acquiring and expanding state highways and providing participation by the state in the payment of part of the costs of constructing and providing certain publicly owned toll roads and other public transportation projects. Sources of pledged revenue for the Texas mobility fund include the United We Stand license plate fees, investment income, motor vehicle inspection fees, driver record information fees, driver license fees and certificate of title fees.

**Constitutional Appropriation Bonds** are issued in support of the construction programs of colleges and universities not benefiting from the permanent university fund, which is dedicated to the University of Texas and Texas A&M University Systems. Debt service payments on bonds issued are limited to the \$131.3 million in general revenue funds available for debt service each year.

The **Economic Development and Tourism Office**, a division within the Office of the Governor, issues general obligation bonds to provide financial assistance to export businesses, to promote domestic business development, to provide loans to finance the commercialization of new and improved products and processes and to provide loans to defense-related communities for economic development projects. Debt service payments are funded from revenues of the Economic Development and Tourism Office, primarily from the repayment of loans and the disposition of debt instruments.

## General Obligation Bonds – Authorized But Unissued

The Texas Constitution limits the amount of bonds that can be issued in any of the general obligation categories. As of Aug. 31, 2009, the amounts of general obligation bonds, other than Constitutional Appropriation Bonds, that were authorized but unissued are listed on the following page.

## General Obligation Bonds Authorized But Unissued

(Amounts in Thousands)

### SELF-SUPPORTING

Texas Agricultural Finance Authority Bonds	\$ 25,000
Farm and Ranch Loan Bonds	475,000
Veterans Land and Housing Bonds	65,069
Water Development Bonds	1,419,610
College Student Loan Bonds	525,482
Texas Military Preparedness Commission	200,405
	<u>2,710,566</u>

### NOT SELF-SUPPORTING

Agricultural Water Conservation Bonds	164,840
Texas Public Finance Authority Bonds	3,941,243
Transportation Commission Transportation Bonds	5,000,000
Water Development Bonds - Economically Distressed Areas Program	262,013
	<u>9,368,096</u>
Total General Obligation Bonds	<u>\$ 12,078,662</u>

### Revenue Bonds – General Comments

Each series of revenue bonds is backed by the pledged revenue sources and restricted funds specified in the bond resolution. Each series is designed to be self-supporting except for the following, which are supported by pledged lease or rental revenue derived from contracts with other state agencies, which in turn comes from legislative appropriations.

- Texas Military Facilities Commission Bonds
- Texas Public Finance Authority Bonds
- Texas Department of Criminal Justice Bonds
- Texas Parks and Wildlife Department Bonds

The purpose and primary pledged revenue sources of each type of revenue bond are summarized below.

The **Adjutant General's Department** assumed the Texas Military Facilities Commission's responsibilities on Sept. 1, 2007. The Texas Military Facilities Commission's title to facilities, rental and other income pledged to the bonds was transferred to the Texas Public Finance Authority. Title will pass to the Adjutant General's Office upon final discharge of all bond obligations. Bonds are issued for the construction, expansion and renovation of armories. The bonds are payable from certain pledged revenues, primarily rentals from the Adjutant General's Department.

The **Texas Public Finance Authority** issues bonds to finance the acquisition of real property and the construction, equipping or renovation of buildings for the use of state agencies and institutions of higher education. The bonds are payable from specified pledged revenues, primarily occupant-agency rentals collected.

The **Texas Parks and Wildlife Department** issues bonds for infrastructure repairs and construction. The bonds are payable from rent payments made by the Texas Parks and Wildlife Department to the Texas Public Finance Authority, which are funded from state appropriations.

The **General Land Office – Veterans Land Board** issues bonds to assist in the construction of skilled nursing care facilities for veterans and to make home mortgage loans to veterans. The bonds are limited and special revenue obligations of the Veterans Land Board payable solely from the income, revenues, receipts and collateral pledged under the related trust indentures.

The **Texas Department of Housing and Community Affairs** issues bonds to assist in financing the purchase of homes by, or the construction of rental housing for, families with low to moderate incomes. Loan payments provide the revenues for debt service payments. The Texas Department of Housing and Community Affairs has also issued taxable bonds for investment in collateralized mortgage obligations of federal agencies, to finance mortgage loans and to carry out financial assistance programs.

The **Texas Water Development Board** issues bonds for the state water pollution control revolving fund commonly referred to as the state revolving fund. The proceeds are used to provide financial assistance to political subdivisions for water quality enhancement purposes. Principal and interest from political subdivision bonds are pledged for debt service requirements of the bonds.

**Permanent University Fund bonds** are issued by the University of Texas and Texas A&M University Systems to build, equip or buy buildings or other permanent improvements. The Texas Constitution limits each system's permanent university fund debt to an amount not to exceed 20 percent and 10 percent, respectively, of the cost value of permanent university fund assets, excluding real estate. Revenue from investments of the permanent university

fund is pledged to secure the payment of interest and principal. The cost value of permanent university fund assets at Aug. 31, 2009, excluding real estate, was \$9.5 billion. A comparison between the legal debt limits and the actual bonds outstanding at that date is shown below.

Permanent University Fund Bonds			
(Amounts in Thousands)			
	Legal Debt Limits	Actual Bonds Payable	Authorized But Unissued
University of Texas System	\$ 1,902,574	\$ 1,274,235	\$ 628,339
Texas A&M University System	951,287	577,105	374,182
Total	<u>\$ 2,853,861</u>	<u>\$ 1,851,340</u>	<u>\$ 1,002,521</u>

### Miscellaneous College and University Revenue

**Bonds** are issued to provide funds to acquire, construct, improve, enlarge and equip property, buildings, structures or facilities. The revenue bonds issued by each institution's governing board are secured by the income of the respective institutions and are not an obligation of the state of Texas.

The **Texas Small Business Industrial Development Corporation**, a nonprofit corporation, came under the management of the Office of the Governor effective Sept. 1, 2003. The Office of the Governor is the oversight agency for the Texas Small Business Industrial Development Corporation, a discretely presented component unit of the state. The Texas Small Business Industrial Development Corporation bond program is composed of revenue demand bonds secured by an amended irrevocable letter of credit (LOC) issued by Bank of America, N.A. for \$101.7 million. This instrument replaces the previous LOC issued by Kredietbank Bank. As of Aug. 31, 2009, no principal drawings have been made on the LOC. The Office of the Governor does not have a take out agreement as part of this LOC or as a separate agreement. Bondholders may tender the bonds for repurchase every seven days. Any bonds so tendered will be purchased by proceeds of the remarketing of the bonds or, if not successfully marketed, from amounts drawn under the LOC.

The **Texas Water Resources Finance Authority**, a public authority created within the Texas Water Development Board, issued bonds to purchase from the Board

the majority of existing political subdivision bonds held. Principal and interest from political subdivision bonds are pledged for debt service requirements of the bonds.

The **Texas Department of Transportation** issues revenue bonds to finance state highway improvement projects.

Pledged revenues include all revenues deposited to the credit of the state highway fund, including dedicated registration fees, dedicated taxes, dedicated federal revenues and amounts collected or received pursuant to other state highway fund revenue laws and any interest or earning from the investment of these funds.

### The Texas Department of Transportation

**Turnpike Authority** issued bonds to pay a portion of the costs of planning, designing, engineering, developing and constructing the initial phase of the Central Texas Turnpike System located in the greater Austin metropolitan area. The bond obligations are payable from and secured solely by a first lien on and pledge of the trust estate.

### Build America Bonds

The American Recovery and Reinvestment Act of 2009 (ARRA) was implemented in February 2009. As part of this federal legislation, a new bond program called Build America Bonds (BABs) was created. Taxable bonds may be issued by governmental entities, including state agencies, as Tax Credit BABs or as Direct Payment BABs. Tax Credit BABs provide a federal tax credit to investors equal to 35 percent of the interest received from the bond issuer. Direct Payment BABs provide a direct federal reimbursement to state and local governmental issuers equal to 35 percent of the interest paid on the bonds. Under the terms of ARRA, both types must be issued before Jan. 1, 2011.

Three agencies, the Texas Department of Transportation, the Texas Public Finance Authority and the University of Texas System, issued Direct Payment BABs in the amount of \$1.7 billion during fiscal 2009. No Tax Credit BABs were issued by state agencies during the year.

### Demand Bonds

The Office of the Governor, the General Land Office, the Department of Housing and Community Affairs, the

## Demand Bonds

(Amounts in Thousands)

	Number of Demand Bond Issues 8/31/09	Standby Purchase Agreement	Letter of Credit	Other	Bonds Held By Liquidity Providers 8/31/09	Principal Balance Outstanding 8/31/09
<b>GOVERNMENTAL ACTIVITIES</b>						
General Obligation Bonds						
Office of the Governor	2			2 b	None	\$ 45,000
Texas Department of Transportation	2	3 a			None	238,385
	<u>4</u>	<u>3</u>	<u>0</u>	<u>2</u>	<u>None</u>	<u>283,385</u>
Revenue Bonds						
Texas Department of Transportation	1	1 a			None	100,000
	<u>1</u>	<u>1</u>	<u>0</u>	<u>0</u>	<u>None</u>	<u>100,000</u>
Governmental Activities Total	<u>5</u>	<u>4</u>	<u>0</u>	<u>2</u>	<u>None</u>	<u>\$ 383,385</u>
<b>BUSINESS-TYPE ACTIVITIES</b>						
General Obligation Bonds						
General Land Office	30	30 a			None	\$ 1,156,570
General Land Office – Veterans Land Board	6	6 a			None	144,495
	<u>36</u>	<u>36</u>	<u>0</u>	<u>0</u>	<u>None</u>	<u>1,301,065</u>
Revenue Bonds						
University of Texas System	4			4 b	None	1,427,735
Texas Department of Housing and Community Affairs	7	7 a			None	362,105
University of Houston System	1			1 b	None	14,225
	<u>12</u>	<u>7</u>	<u>0</u>	<u>5</u>	<u>None</u>	<u>1,804,065</u>
Business-Type Activities Bond Total	<u>48</u>	<u>43</u>	<u>0</u>	<u>5</u>	<u>None</u>	<u>\$ 3,105,130</u>
<b>COMPONENT UNITS</b>						
Revenue Bonds						
Office of the Governor	1		1 c		None	\$ 60,000
Component Units Total	<u>1</u>	<u>0</u>	<u>1</u>	<u>0</u>	<u>None</u>	<u>\$ 60,000</u>

a - See Demand Bonds - Standby Purchase Agreements table.

b - In the event redeemed bonds are not remarketed, internal funds of the agency are available for redemption.

c - In the event that redeemed bonds are not remarketed, a letter of credit with Bank of America will be used until remarketed.

Department of Transportation, the University of Houston System and the University of Texas System had outstanding demand bonds at Aug. 31, 2009. Details are presented in the tables above and on the right.

A bondholder may tender any of these bonds for repurchase prior to maturity, usually every seven days. Any bonds so tendered will be purchased either by the proceeds of the remarketing of such bonds or, if not successfully remarketed, from amounts drawn under the letter of credit, liquidity agreement or standby purchase agreement of the respective agency until such time as the remarketing is finalized. As of Aug. 31, 2009, there were no purchased bonds held by liquidity providers under the terms of the various agreements.

## Demand Bond – Standby Purchase Agreements

Counterparties	Secured Bond Issue Agreements	Annual Liquidity Fee	Agreement Termination Date
Comptroller of Public Accounts	3	0.1200%	08/31/11
Comptroller of Public Accounts	7	0.1200%	11/30/09
DEPFA Bank plc	2	0.0750%	02/22/10
DEPFA Bank plc	1	0.0800%	04/08/12
Dexia Credit Local	10	0.0650%	11/15/11
Dexia Credit Local	1	0.1000%	11/15/11
Dexia Credit Local	1	0.3250%	09/11/10
Landesbank Hessen-Thüringen Girozentrale	1	0.5500%	12/01/09
Landesbank Hessen-Thüringen Girozentrale	5	0.5500%	06/11/11
Landesbank Hessen-Thüringen Girozentrale	4	0.5500%	12/31/15
State Street Bank and Trust Company	3	0.1100%	11/17/10
State Street Bank and Trust Company	4	0.2500%	02/01/12
State Street Bank and Trust Company	1	0.0500%	12/13/13
Sumitomo Mitsui Banking Corp	2	0.7500%	08/11/12
Banco Bilbao Vizcaya Argentaria, S.A.	1	0.0875%	11/07/16
California Public Employees Retirement System	1	0.0500%	12/13/13
Total	<u>47</u>		

Takeout agreements are used by the Texas Department of Transportation to provide an alternative debt instrument to replace any repurchased bonds that have not been remarketed within the prescribed time constraints. The table shown below provides the estimated impact of such an event.

Demand Bonds Takeout Agreement Provisions			
(Amounts in Thousands)			
	Estimated Debt Service	Rate	Basis
<b>GOVERNMENTAL ACTIVITIES</b>			
General Obligation Bonds			
Texas Department of Transportation			
Texas Mobility Fund Bonds			
Series 2005B	\$ 100,292 a	3.85%	Fed Fds Rate (prior 7 Yr. Ave.) + 1.25%
Series 2006B	164,040 b	7.02%	Bank Prime Rate (prior 3 Yr. Ave.) + 1%
Revenue Bonds			
Texas Department of Transportation			
State Highway Fund Revenue Bonds			
Series 2006B	113,366 c	8.02%	Bank Prime Rate (prior 3 Yr. Ave.) + 2%
Total	<u>\$ 377,698</u>		
a Replacement debt is subject to semi-annual payments over seven years starting the first day of the third month of that period. b Replacement debt is subject to semi-annual payments over three years starting the first day of the second month of that period. c Replacement debt is subject to semi-annual payments over three years starting the first day of the seventh month of that period.			

### Early Extinguishment of Debt

Entities that had early debt extinguishments in fiscal 2009 are as follows. The source of funds used for the extinguishments included loan repayments and other available funds.

Early Extinguished Debt Issues	
(Amounts in Thousands)	
<b>BUSINESS-TYPE ACTIVITIES</b>	
General Obligation Bonds	
General Land Office	\$ 4,320
Revenue Bonds	
Texas Department of Housing and Community Affairs	84,653
University of Houston System	855
University of Texas System	4,000
Business-Type Activities Total	<u>93,828</u>
Grand Total	<u>\$ 93,828</u>



## Refunding

During fiscal 2009 eight entities refunded bonds to lower interest rates or to restructure debt service requirements for cash management purposes.

### Refunding Issues

(Amounts in Thousands)

	Types of Refunding	Par Value of Refunding Issue	Par Value Refunded	Cash Flow Difference Increase	Economic Gain
<b>GOVERNMENTAL ACTIVITIES</b>					
General Obligation Bonds					
Texas Water Development Board	Current Refunding	\$ 84,010	\$ 84,995	\$ 8,826	\$ 5,897
Governmental Activities Total		<u>84,010</u>	<u>84,995</u>	<u>8,826</u>	<u>5,897</u>
<b>BUSINESS-TYPE ACTIVITIES</b>					
General Obligation Bonds					
Texas Water Development Board	Current Refunding	83,770	85,315	8,521	7,596
		<u>83,770</u>	<u>85,315</u>	<u>8,521</u>	<u>7,596</u>
Revenue Bonds					
Texas Department of Housing and Community Affairs	Advance Refunding	22,605	22,605	17,025	4,380
Texas Department of Housing and Community Affairs	Current Refunding	14,000	14,000	31,527	29,356
Texas Water Development Board	Current Refunding	32,765	39,485	11,074	6,607
Texas Department of Transportation	Current Refunding	149,275	147,475	116,897	60,035
Texas Tech University System	Current Refunding	36,950	39,245	4,363	3,875
Texas State University System	Current Refunding	7,740	8,005	672	676
University of Houston System	Current Refunding	18,975	20,515	2,023	1,743
Texas A&M University System	Current Refunding	11,420	11,785	1,731	906
University of Texas System	Current Refunding	16,320	16,115	438	380
		<u>310,050</u>	<u>319,230</u>	<u>185,750</u>	<u>107,958</u>
Business-Type Activities Total		<u>393,820</u>	<u>404,545</u>	<u>194,271</u>	<u>115,554</u>
Grand Total		<u>\$ 477,830</u>	<u>\$ 489,540</u>	<u>\$ 203,097</u>	<u>\$ 121,451</u>

## Defeased Bonds Outstanding

Texas has defeased various bond issues by placing funds in irrevocable trusts in the Texas Treasury Safekeeping Trust Company and external financial institutions to provide for all future debt service payments on the old bonds. Funds placed in the Texas Treasury Safekeeping Trust Company to defease \$76.2 million in bonds are included in the state's financial statements in an agency fund. The trust account assets and the liability for all other defeased bonds are not included in the state's financial statements. The accompanying table presents the defeased bonds, at par, outstanding as of Aug. 31, 2009.

### Defeased Bonds Outstanding

(Amounts in Thousands)

#### GOVERNMENTAL ACTIVITIES

General Obligation Bonds		
Texas Water Development Board	\$	49,340
Texas Public Finance Authority		10,613
Texas Parks and Wildlife Department		8,250
Revenue Bonds		
Texas Public Finance Authority		80,045
Texas National Research Laboratory Commission		31,305
Texas Parks and Wildlife Department		13,155
		<u>192,708</u>

#### BUSINESS-TYPE ACTIVITIES

General Obligation Bonds		
General Land Office – Veterans Land Board		49,700
Texas Water Development Board		26,650
Revenue Bonds		
University of Texas System		1,450,817
Texas Tech University System		81,985
University of Houston System		44,430
Texas A&M University System		43,005
Texas Department of Housing and Community Affairs		22,605
Texas State University System		21,336
Texas Water Development Board		17,425
Stephen F. Austin State University		2,011
Texas Southern University		170
		<u>1,760,134</u>
Total	\$	<u>1,952,842</u>

## Pledged Future Revenue

(Amounts in Thousands)

	Governmental Activities	Business-Type Activities	Component Units
Pledged Revenue Required for Future Principal and Interest on Existing Revenue Bonds	\$ 4,632,522	\$ 25,418,098	\$ 577,420
Term of Commitment Year Ending Aug. 31,	2028	2047	2041
Percentage of Revenue Pledged	100.0%	100.0%	100.0%
Current Year Pledged Revenue	6,640,110	10,700,325	62,397
Current Year Principal and Interest Paid	308,515	1,075,863	95,719

sion thereof is obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying statements.

As of Aug. 31, 2009, there were 19 series of multifamily housing revenue bonds outstanding with an aggregate \$314 million principal amount payable.

### Pledged Future Revenues

GASB Statement 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*, makes a basic distinction between sales of receivables and future revenues, on the one hand, and the pledging of receivables or future revenues to repay a borrowing (a collateralized borrowing), on the other. The table above provides pledged revenue and pledged future revenue information for the state's revenue bonds.

### Conduit Debt

The Texas State Affordable Housing Corporation, a discrete component unit of the state, is authorized to issue statewide 501(c)(3) tax-exempt multifamily mortgage revenue bonds under the Texas Government Code Section 2306.555. The 501(c)(3) tax-exempt multifamily mortgage revenue bond program provides long-term variable or fixed rate financing to nonprofit borrower/developers of new or existing multifamily rental properties in order to generate and/or preserve affordable rental housing. The Texas State Affordable Housing Corporation may finance single developments or pools of properties located throughout the state of Texas. Borrowers must agree to set aside a prescribed percentage of a property's units for rent to persons and families of low income. The Texas State Affordable Housing Corporation finances properties under the program primarily through the sale of tax-exempt multifamily housing revenue bonds.

The bonds are secured by the property financed and are payable solely from payments received on the underlying mortgage loans. Neither the Texas State Affordable Housing Corporation, the state nor any political subdivi-

### INTEREST RATE SWAP AGREEMENTS

During fiscal 2009 the Veterans Land Board (VLB), the Texas Department of Housing and Community Affairs (TDHCA), the Texas Department of Transportation (TxDOT) and the University of Texas System (UT) entered into interest rate swap agreements. Interest rate swap agreements are a type of derivative contract used to hedge interest rates on a portion of the state's outstanding bonds.

#### Pay-Fixed, Receive-Variable Interest Rate Swaps (VLB)

**Objective of the Swaps:** VLB is currently a party to 41 pay-fixed, receive-variable interest rate swaps that are associated with 44 variable-rate bond issues. The combination of swaps and variable-rate bonds creates synthetic fixed-rate debt. The use of synthetic fixed-rate debt has historically lowered VLB's borrowing costs, as compared to the borrowing costs associated with the issuance of traditional fixed-rate bonds. Several of the swaps contain embedded barrier options that provide for VLB to be "knocked out" of the swaps by the respective counterparties upon the breach of a certain predetermined barrier. In each of these cases, VLB was paid an up-front option premium by the respective counterparties. With regard to the swaps associated with the Vet Land Tax Ref Bds Ser '99B and the Vet Land Tax Ref Bds Ser 2000, the knock-outs are permanent and are optional at the discretion of the counterparty. In the remainder of the swaps with embedded barrier options, the knock-out is mandatory and is periodic in nature, with the knock-out period corresponding only to the period during which the barrier was breached.

**Terms, Fair Values and Credit Ratings:** The terms, fair values and counterparty credit ratings related to the outstanding variable-to-fixed swaps as of Aug. 31, 2009,

are shown in the tables on the following pages. The notional amounts and amortization schedules of the swaps match those of the associated variable-rate bonds.

### Pay-Variable, Receive-Fixed Interest Rate Swaps (VLB)

**Objective of the Swaps:** VLB is currently a party to one pay-variable, receive-fixed interest rate swap that is associated with a taxable variable-rate bond issue. The swap was overlaid on an existing pay-fixed, receive-vari-

able swap and effectively results in unhedged variable-rate bonds with an expected borrowing cost significantly below market over the life of the swap.

**Terms, Fair Values and Credit Ratings:** The terms, fair values and counterparty credit ratings related to the outstanding fixed-to-variable basis swaps as of Aug. 31, 2009, are shown in the table below. The notional amounts and amortization schedules of the swaps match those of the associated variable-rate bonds.

## Pay-Variable Receive-Fixed Interest Rate Swaps

(Amounts in Thousands)

Associated Bond Issue	Notional Amount	Effective Date	Variable-Rate Paid	Fixed-Rate Received	Knock-out Barrier
GENERAL LAND OFFICE – VETERANS LAND BOARD					
Vet Land Tax Ref Bds Ser 2006B	\$ 22,450	06/01/2006	100% of 6M LIBOR	4.6100%	6M LIBOR >= 8.00%
Total	<u>\$ 22,450</u>				

Associated Bond Issue	Knock-out Type	Knock-out Period	Up-Front Knock-out Premium Received	Fair Value	Swap Termination Date	Counterparty Credit Ratings
GENERAL LAND OFFICE – VETERANS LAND BOARD						
Vet Land Tax Ref Bds Ser 2006B	Mandatory	Periodic	<u>\$ 674</u>	<u>\$ 2,995</u>	12/01/2026	A+/Aa3
Total			<u>\$ 674</u>	<u>\$ 2,995</u>		

## Pay-Fixed Receive-Variable Interest Rate Swaps

(Amounts in Thousands)

Associated Bond Issue	Notional Amount	Effective Date	Fixed-Rate Paid	Variable-Rate Received	Knock-out Barrier
<b>GENERAL LAND OFFICE – VETERANS LAND BOARD</b>					
Vet Hsg Ref Bds Ser '95	\$ 53,105	11/29/1995	5.5200%	Actual Bond Rate	N/A
Vet Land Ref Bds Ser '99A	27,075	06/01/1999	5.1120%	68% of 6M LIBOR**	N/A
Vet Land Tax Ref Bds Ser '99B	7,215	12/01/1999	5.1250%	100% of 6M LIBOR	1M LIBOR >= 6.50%
Vet Land Tax Ref Bds Ser 2000	39,960	12/01/2000	6.1060%	100% of 6M LIBOR	1M LIBOR >= 7.00%
Vet Hsg Fund II Bds Ser 2001A-2	20,000	03/22/2001	4.3000%	68% of 1M LIBOR	N/A
Vet Hsg Fund II Bds Ser 2001C-2	25,000	12/18/2001	4.3650%	68% of 1M LIBOR	N/A
Vet Land Bds Ser 2002	17,815	02/21/2002	4.1400%	68% of 1M LIBOR	N/A
Vet Hsg Fund II Bds Ser 2002A-2	24,160	07/10/2002	3.8725%	68% of 1M LIBOR	N/A
Vet Land Tax Ref Bds Ser 2002	27,685	12/01/2002	4.9350%	100% of 6M LIBOR	6M LIBOR >= 7.00%
Vet Hsg Fund I Tax Ref Bds Ser 2002B	19,780	12/01/2002	4.9100%	100% of 6M LIBOR	6M LIBOR > 7.00%
Vet Hsg Fund II Bds Ser 2003A	38,555	03/04/2003	3.3040%	68% of 1M LIBOR	N/A
Vet Hsg Fund II Bds Ser 2003B	39,805	10/22/2003	3.4030%	64.5% of 1M LIBOR	N/A
Vet Land Tax Ref Bds Ser 2003	24,545	12/01/2003	5.1230%	100% of 1M LIBOR	1M LIBOR >= 7.00%
Vet Hsg Fund I Tax Ref Bds Ser 2003	47,865	12/01/2003	5.1900%	100% of 6M LIBOR	6M LIBOR > 7.00%
Vet Hsg Fund I Tax Ref Bds Ser 2004	16,535	06/01/2004	5.4500%	100% of 6M LIBOR	6M LIBOR >= 7.00%
Vet Hsg Fund II Bds Ser 2004B	42,870	09/15/2004	3.6800%	68% of 1M LIBOR	N/A
Vet Land Tax Ref Bds Ser 2004	22,755	12/01/2004	5.4550%	100% of 6M LIBOR	6M LIBOR >= 7.00%
Vet Hsg Fund II Tax Ref Bds Ser 2004C,D,E	37,815	12/01/2004	5.3480%	100% of 1M LIBOR	1M LIBOR >= 7.00%
Vet Hsg Fund II Bds Ser 2005A	42,505	02/24/2005	3.2790%	68% of 1M LIBOR	N/A
Vet Land Tax Ref Bds Ser 2005	21,300	12/01/2005	6.5170%	100% of 6M LIBOR	6M LIBOR >= 7.00%
Vet Hsg Fund I/II Tax Ref Bds Ser 2005C/D	23,680	12/01/2005	5.1450%	100% of 1M LIBOR	1M LIBOR >= 7.00%; 6M LIBOR > 4.00% and SIFMA*** / LIBOR Ratio > 74%
Vet Hsg Fund I Tax Ref Bds Ser 2005C	17,035	12/01/2005	4.9290%	100% of 1M LIBOR	1M LIBOR >= 7.00%; 6M LIBOR > 4.00% and SIFMA / LIBOR Ratio > 74%
Vet Hsg Fund I Tax Ref Bds Ser 2005C	1,070	12/01/2005	4.3300%	100% of 1M LIBOR	N/A
Vet Hsg Fund II Bds Ser 2006A	44,445	06/01/2006	3.5170%	68% of 1M LIBOR	N/A
Vet Land Tax Ref Bds Ser 2006A	28,930	06/01/2006	6.5400%	100% of 6M LIBOR	6M LIBOR >= 7.00%
Vet Hsg Fund II Tax Ref Bds Ser 2006C	20,850	06/01/2006	5.7900%	100% of 6M LIBOR	6M LIBOR >= 7.00%
Vet Hsg Fund II Tax Ref Bds Ser 2006B	38,570	06/01/2006	5.8300%	100% of 1M LIBOR	1M LIBOR >= 7.00%
Vet Land Tax Ref Bds Ser 2006B	22,450	06/01/2006	4.6100%	100% of 6M LIBOR	6M LIBOR >= 7.00%
Vet Hsg Fund II Bds Ser 2006D	46,325	09/20/2006	3.6890%	68% of 1M LIBOR	N/A
Vet Land Tax Ref Bds Ser 2006C	37,525	12/01/2006	6.5130%	100% of 1M LIBOR	1M LIBOR >= 7.00%
Vet Hsg Fund II Tax Ref Bds Ser 2006E	39,560	12/01/2006	5.4610%	100% of 1M LIBOR	1M LIBOR >= 7.00%; 6M LIBOR > 4.00% and SIFMA / LIBOR Ratio > 74%
Vet Hsg Fund II Tax Ref Bds Ser 2007C	46,600	12/01/2007	4.6580%	100% of 1M LIBOR	1M LIBOR >= 7.00%; SIFMA / SY ISDA CMS**** > 71%
Vet Hsg Fund II Bds Ser 2007A	46,760	02/22/2007	3.6450%	68% of 1M LIBOR	N/A
Vet Hsg Fund II Bds Ser 2007B	48,270	06/26/2007	3.7120%	68% of 1M LIBOR	N/A
Vet Hsg Fund II Bds Ser 2008A	48,790	03/26/2008	3.1890%	68% of 1M LIBOR	N/A
Vet Hsg Fund II Bds Ser 2008B	49,365	09/11/2008	3.2250%	68% of 1M LIBOR	N/A
Vet Hsg Fund II Tax Ref Bds Ser 2009	16,950	12/01/2009	6.2200%	100% of 6M LIBOR	6M LIBOR >= 7.00%
Vet Hsg Fund II Tax Ref Bds Ser 2009A	65,845	12/01/2009	5.4525%	100% of 6M LIBOR	6M LIBOR >= 7.00%
Vet Hsg Fund II Tax Ref Bds Ser 2010A	66,720	06/01/2010	5.4010%	100% of 1M LIBOR	1M LIBOR >= 7.00%; 6M LIBOR > 4.00% and SIFMA / LIBOR Ratio > 74%
Vet Land Tax Ref Bds Ser 2010	16,480	12/01/2010	5.2090%	100% of 1M LIBOR	1M LIBOR >= 7.00%; 6M LIBOR > 4.00% and SIFMA / LIBOR Ratio > 74%
Vet Homes Rev Ref Bds, Ser 2012	21,795	08/01/2012	3.7600%	68% of 1M LIBOR	1M LIBOR >= 7.00%;
Subtotal General Land Office – Veterans Land Board	<u>1,344,360</u>				

## Pay-Fixed Receive-Variable Interest Rate Swaps (continued)

(Amounts in Thousands)

Associated Bond Issue	Knock-out Type	Knock-out Period	Up-Front Knock-out Premium Received	Fair Value	Swap Termination Date	Counterparty Credit Ratings *
<b>GENERAL LAND OFFICE – VETERANS LAND BOARD</b>						
Vet Hsg Ref Bds Ser '95	N/A	N/A	N/A	\$ (8,323)	12/01/2016	A-/A3
Vet Land Ref Bds Ser '99A	N/A	N/A	N/A	(4,276)	12/01/2018	A-/A3
Vet Land Tax Ref Bds Ser '99B	Optional	Permanent	740	(153)	12/01/2009	AAA/Aaa
Vet Land Tax Ref Bds Ser 2000	Optional	Permanent	2,700	(8,214)	12/01/2020	AAA/Aaa
Vet Hsg Fund II Bds Ser 2001A-2	N/A	N/A	N/A	(4,183)	12/01/2029	AA-/Aa1
Vet Hsg Fund II Bds Ser 2001C-2	N/A	N/A	N/A	(6,184)	12/01/2033	AAA/Aaa
Vet Land Bds Ser 2002	N/A	N/A	N/A	(3,169)	12/01/2032	A/A2
Vet Hsg Fund II Bds Ser 2002A-2	N/A	N/A	N/A	(4,243)	06/01/2033	A+/Aa3
Vet Land Tax Ref Bds Ser 2002	Mandatory	Periodic	2,785	(4,277)	12/01/2021	A/A2
Vet Hsg Fund I Tax Ref Bds Ser 2002B	Mandatory	Periodic	2,165	(3,125)	06/01/2023	AAA/Aaa
Vet Hsg Fund II Bds Ser 2003A	N/A	N/A	N/A	(3,192)	06/01/2034	A+/Aa3
Vet Hsg Fund II Bds Ser 2003B	N/A	N/A	N/A	(3,679)	06/01/2034	AAA/Aaa
Vet Land Tax Ref Bds Ser 2003	Mandatory	Periodic	1,896	(4,130)	12/01/2023	A+/Aa3
Vet Hsg Fund I Tax Ref Bds Ser 2003	Mandatory	Periodic	4,470	(7,878)	06/01/2021	AAA/Aaa
Vet Hsg Fund I Tax Ref Bds Ser 2004	Mandatory	Periodic	1,442	(3,620)	12/01/2024	A+/Aa3
Vet Hsg Fund II Bds Ser 2004B	N/A	N/A	N/A	(5,077)	12/01/2034	A+/Aa3
Vet Land Tax Ref Bds Ser 2004	Mandatory	Periodic	2,075	(4,506)	12/01/2024	A/A2
Vet Hsg Fund II Tax Ref Bds Ser 2004C,D,E	Mandatory	Periodic	2,594	(6,509)	06/01/2020	A+/Aa3
Vet Hsg Fund II Bds Ser 2005A	N/A	N/A	N/A	(3,492)	06/01/2035	AAA/Aaa
Vet Land Tax Ref Bds Ser 2005	Mandatory	Periodic	1,542	(6,478)	12/01/2026	A+/Aa3
Vet Hsg Fund I/II Tax Ref Bds Ser 2005C/D	Mandatory	Periodic	1,367	(5,376)	06/01/2026	A+Aa3
			566			
Vet Hsg Fund I Tax Ref Bds Ser 2005C	Mandatory	Periodic	484	(2,941)	12/01/2023	A+/Aa3
			267			
Vet Hsg Fund I Tax Ref Bds Ser 2005C	N/A	N/A	N/A	(22)	12/01/2009	A+/Aa3
Vet Hsg Fund II Bds Ser 2006A	N/A	N/A	N/A	(4,890)	12/01/2036	AAA/Aaa
Vet Land Tax Ref Bds Ser 2006A	Mandatory	Periodic	1,931	(8,675)	12/01/2027	A+/Aa3
Vet Hsg Fund II Tax Ref Bds Ser 2006C	Mandatory	Periodic	1,493	(4,931)	12/01/2027	A+/Aa3
Vet Hsg Fund II Tax Ref Bds Ser 2006B	Mandatory	Periodic	1,992	(10,885)	12/01/2026	A+/Aa3
Vet Land Tax Ref Bds Ser 2006B	Mandatory	Periodic	886	(3,212)	12/01/2026	AAA/Aaa
Vet Hsg Fund II Bds Ser 2006D	N/A	N/A	N/A	(5,546)	12/01/2036	A+/Aa2
Vet Land Tax Ref Bds Ser 2006C	Mandatory	Periodic	2,725	(11,650)	12/01/2027	A+/Aa3
Vet Hsg Fund II Tax Ref Bds Ser 2006E	Mandatory	Periodic	2,652	(10,657)	12/01/2026	A+/Aa3
			1,018			
Vet Hsg Fund II Tax Ref Bds Ser 2007C	Mandatory	Periodic	935	(8,757)	06/01/2029	A+/Aa3
			1,020			
Vet Hsg Fund II Bds Ser 2007A	N/A	N/A	N/A	(5,614)	06/01/2037	AAA/Aaa
Vet Hsg Fund II Bds Ser 2007B	N/A	N/A	N/A	(6,162)	06/01/2038	A+/Aa3
Vet Hsg Fund II Bds Ser 2008A	N/A	N/A	N/A	(3,932)	06/01/2037	AAA/Aaa
Vet Hsg Fund II Bds Ser 2008B	N/A	N/A	N/A	(4,002)	06/01/2038	AAA/Aaa
Vet Hsg Fund II Tax Ref Bds Ser 2009	Mandatory	Periodic	612	(3,399)	12/01/2021	A+/Aa3
Vet Hsg Fund II Tax Ref Bds Ser 2009A	Mandatory	Periodic	2,740	(14,575)	06/01/2031	A+/Aa3
Vet Hsg Fund II Tax Ref Bds Ser 2010A	Mandatory	Periodic	2,355	(15,932)	12/01/2031	A+/Aa3
			1,427			
Vet Land Tax Ref Bds Ser 2010	Mandatory	Periodic	466	(3,121)	12/01/2030	A+/Aa3
			208			
Vet Homes Rev Ref Bds, Ser 2012	Mandatory	Periodic	579	(2,381)	08/01/2035	AAA/Aaa
Subtotal General Land Office – Veterans Land Board			<u>48,132</u>	<u>(231,368)</u>		

## Pay-Fixed Receive-Variable Interest Rate Swaps (continued)

(Amounts in Thousands)

Associated Bond Issue	Notional Amount	Effective Date	Fixed-Rate Paid	Variable-Rate Received	Knock-out Barrier
<b>TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS</b>					
2004B Single Family	53,000	09/01/2004	3.8430%	63% of LIBOR + .30%	N/A
2004D Single Family	35,000	01/01/2005	3.6375%	Lesser of (the greater of 65% of LIBOR and 56% of LIBOR + .45%) and LIBOR	N/A
2005A Single Family	90,825	08/01/2005	4.0100%	Lesser of (the greater of 65% of LIBOR and 56% of LIBOR + .45%) and LIBOR	N/A
2006H Single Family	36,000	11/15/2006	3.8570%	63% of LIBOR + .30%	N/A
2007A Single Family	136,815	06/05/2007	4.0130%	Lesser of (the greater of 65% of LIBOR and 56% of LIBOR + .45%) and LIBOR	N/A
Subtotal Tx. Dept. of Housing and Comm Affairs	<u>351,640</u>				
<b>UNIVERSITY OF TEXAS SYSTEM</b>					
Rev Fin Sys Ref Bds Ser 2001A	15,740	08/15/2001	4.6330%	67% of 1M LIBOR	N/A
Rev Fin Sys Ref Bds Ser 2007B	168,403	12/20/2007	3.8050%	100% of SIFMA	N/A
Rev Fin Sys Ref Bds Ser 2007B	168,402	12/20/2007	3.8050%	100% of SIFMA	N/A
Rev Fin Sys Ref Bds Ser 2008B	152,670	03/18/2008	3.9000%	100% of SIFMA	N/A
Rev Fin Sys Ref Bds Ser 2008B	152,670	03/18/2008	3.9000%	100% of SIFMA	N/A
Rev Fin Sys Ref Bds Ser 2008B	368,720	03/18/2008	3.6140%	100% of SIFMA	N/A
PUF Bds Ser 2008A	200,453	11/03/2008	3.6960%	100% of SIFMA	N/A
PUF Bds Ser 2008A	200,452	11/03/2008	3.6575%	100% of SIFMA	N/A
Subtotal University of Texas System	<u>1,427,510</u>				
Total	<u>\$ 3,123,510</u>				

\* Standard and Poor's and Moody's Investor Service.

\*\* London Interbank Offered Rate (LIBOR).

\*\*\* Securities Industry and Financial Markets Association Index (SIFMA) rate.

\*\*\*\* International Swaps and Derivatives Association (ISDA), Constant Maturity Swaps (CMS).

## Pay-Fixed Receive-Variable Interest Rate Swaps (concluded)

(Amounts in Thousands)

Associated Bond Issue	Knock-out Type	Knock-out Period	Up-Front Knock-out Premium Received	Fair Value	Swap Termination Date	Counterparty Credit Ratings *
<b>TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS</b>						
2004B Single Family	N/A	N/A	N/A	(4,646)	09/01/2034	A+/Aa2
2004D Single Family	N/A	N/A	N/A	(2,735)	03/01/2035	NR/NR
2005A Single Family	N/A	N/A	N/A	(5,030)	09/01/2036	AA-/Aa1
2006H Single Family	N/A	N/A	N/A	(3,093)	09/01/2025	A+/Aa2
2007A Single Family	N/A	N/A	N/A	(7,345)	09/01/2038	AA-/Aa1
Subtotal Tx. Dept. of Housing and Comm Affairs			<u>0</u>	<u>(22,849)</u>		
<b>UNIVERSITY OF TEXAS SYSTEM</b>						
Rev Fin Sys Ref Bds Ser 2001A	N/A	N/A	N/A	(1,293)	08/15/2013	AA-/Aa1
Rev Fin Sys Ref Bds Ser 2007B	N/A	N/A	N/A	(12,562)	08/01/2034	AA-/Aa1
Rev Fin Sys Ref Bds Ser 2007B	N/A	N/A	N/A	(12,700)	08/01/2034	A+/Aa2
Rev Fin Sys Ref Bds Ser 2008B	N/A	N/A	N/A	(12,935)	08/01/2036	AA-/Aa1
Rev Fin Sys Ref Bds Ser 2008B	N/A	N/A	N/A	(12,834)	08/01/2036	A+/Aa2
Rev Fin Sys Ref Bds Ser 2008B	N/A	N/A	N/A	(19,724)	08/01/2039	AA-/Aa1
PUF Bds Ser 2008A	N/A	N/A	N/A	(11,872)	07/01/2038	A/A2
PUF Bds Ser 2008A	N/A	N/A	N/A	(10,877)	07/01/2038	AA-/Aaa
Subtotal University of Texas System			<u>0</u>	<u>(94,797)</u>		
Total			<u>\$ 48,132</u>	<u>\$(349,014)</u>		



## Pay-Variable, Receive-Variable Interest Rate Swaps (VLB)

**Objective of the Swaps:** VLB is currently a party to five pay-variable, receive-variable interest rate swaps that are associated with three taxable variable-rate bond issues and one tax-exempt, fixed-rate bond issue. These swaps are London Interbank Offered Rate (LIBOR) - to - Securities Industry Financial Markets Association rate (SIFMA) basis swaps and effectively convert the variable rate on the associated variable-rate bond issues from a LIBOR (taxable)

based rate to a SIFMA (tax-exempt) based rate. The swaps are expected to generate an effective lower borrowing cost to VLB over the life of the swaps.

**Terms, Fair Values and Credit Ratings:** The terms, fair values and counterparty credit ratings related to the outstanding variable-to-variable basis swaps as of Aug. 31, 2009, are shown in the table below. The notional amounts and amortization schedules of the swaps match those of the associated variable-rate bonds.

## Pay-Variable Receive-Variable Interest Rate Swaps

(Amounts in Thousands)

Associated Bond Issue	Notional Amount	Effective Date	Variable-Rate Paid	Variable-Rate Received	Fair Value	Swap Termination Date	Counter-party Credit Ratings *
<b>GENERAL LAND OFFICE – VETERANS LAND BOARD</b>							
Vet Hsg Fund II Tax Bds Ser '97B-2	\$ 25,000	09/27/2002	132.60% of SIFMA	100% of 3M LIBOR	\$ (36)	12/01/2010	A+/Aa3
Vet Hsg Fund II Tax Bds Ser '99A-2	90,000	08/05/2002	134.40% of SIFMA	100% of 1M LIBOR	(541)	09/01/2011	AAA/Aaa
Vet Hsg Fund II Tax Bds Ser '99A-2	60,000	08/05/2002	134.40% of SIFMA	100% of 1M LIBOR	(352)	09/01/2011	A+/Aa3
Vet Land Tax Bds Ser 2000A/2002A	35,880	08/05/2002	131.25% of SIFMA	100% of 1M LIBOR	(1,170)	12/01/2032	A/A2
Vet Hsg Fund II Ser 2009A	31,630	03/10/2009	100.00% of SIFMA	94.35% of 3M LIBOR	1,891	12/01/2023	AAA/Aaa
Subtotal General Land Office – Veterans Land Board	<u>242,510</u>				<u>(208)</u>		
<b>TEXAS DEPARTMENT OF TRANSPORTATION</b>							
Mobility Fund GO Bds Ser 2006A	200,000	09/01/2007	100% of SIFMA	69.42% 10Y LIBOR	3,376	09/01/2027	AA-/Aa3
Mobility Fund GO Bds Ser 2006A	100,000	09/01/2007	100% of SIFMA	69.42% 10Y LIBOR	1,688	09/01/2027	AAA/Aa1
Mobility Fund GO Bds Ser 2006A	100,000	09/01/2007	100% of SIFMA	69.42% 10Y LIBOR	1,688	09/01/2027	A+/A2
Subtotal Texas Department of Transportation	<u>400,000</u>				<u>6,752</u>		
<b>UNIVERSITY OF TEXAS SYSTEM</b>							
PUF Bds Ser 2006B	284,065	01/01/2009	100% of SIFMA	82.04% of 1M LIBOR	(2,190)	07/01/2035	A+/Aa3
Rev Fin Sys Ref Bds Ser 2008B	92,045	08/01/2009	100% of SIFMA	96% of 3M LIBOR	7,141	08/01/2030	AA-/Aaa
Rev Fin Sys Ref Bds Ser 2008B	117,190	08/01/2009	100% of SIFMA	103% of 3M LIBOR	14,947	08/01/2035	AA-/Aaa
Rev Fin Sys Ref Bds Ser 2008B	90,270	08/01/2009	100% of SIFMA	102.5% of 3M LIBOR	11,821	08/01/2039	AA-/Aaa
Subtotal University of Texas System	<u>583,570</u>				<u>31,719</u>		
Total	<u>\$ 1,226,080</u>				<u>\$ 38,263</u>		

\* Standard and Poor's and Moody's Investor Service.

## Fair Value Methodology and Risk Exposure of Swap Transactions (VLB)

**Fair Value:** The fair values of the swaps were estimated using the zero-coupon method. Using observable market information for Treasury bonds and LIBOR spreads, a smoothed LIBOR swap yield curve is constructed. From this swap yield curve, the path of future expected floating LIBOR interest rates is determined for a specific swap transaction. The path of the floating payments is then averaged together to produce a single fixed swap rate for the same time horizon as the swap being valued. The difference between this calculated fixed swap rate and the actual fixed swap rate on the transaction is then multiplied by the applicable outstanding notional amount at each future payment date to generate a series of payments. These payments are then discounted back to the valuation date using hypothetical zero-coupon bond rates derived from the LIBOR swap yield curve. The sum of these discounted payments produces the fair value of the swap.

For swaps with embedded options, an additional calculation, similar to that described above, is conducted to determine the value of the options. Using the approach described above, a swap rate is derived for each potential exercise date of each option. Market-derived data for interest rate volatility is then used to determine a probabilistic range of potential swap rates. For each potential swap rate, a value is determined for the option. These values are then weighted by their probabilities and discounted back to the valuation date using hypothetical zero-coupon bond rates as described above. The sum of the present value of the values for each exercise date produces the fair value of the option.

**Credit Risk:** VLB mitigates the credit risk associated with its swaps by entering into transactions with highly-rated counterparties. As shown in the tables on the previous pages, the credit ratings of VLB's counterparties range from AAA to A- by Standard & Poor's (S&P) and Aaa to A3 by Moody's Investors Service (Moody's).

VLB also mitigates its concentration of credit risk by diversifying its swap portfolio across several different counterparties. VLB's 47 currently outstanding swaps are spread among seven different counterparties with no more

than 51 percent of the total notional amount of swaps outstanding being associated with any single counterparty.

VLB's swap agreements also contain collateralization provisions that require counterparties to post collateral in the full amount of the fair value of the swap if the counterparty's credit rating is at or below A+ by S&P or A1 by Moody's. Only U.S. government obligations are acceptable forms of collateral. Posted collateral may be held either by VLB itself or by a third party custodian that is rated at least BBB+ by S&P or Baa1 by Moody's.

**Basis Risk:** VLB is exposed to basis risk to the extent that the interest payments on its variable-rate bonds do not match the variable-rate payments received on the associated swaps. VLB mitigates this risk by (a) matching the notional amount and amortization schedule of each swap to the principal amount and amortization schedule of each associated variable-rate bond issue and (b) selecting an index for the variable-rate leg of each swap that is reasonably expected to closely match the interest rate resets on the associated variable-rate bonds over the life of each bond issue.

**Termination Risk:** VLB or the counterparties may terminate any of the swaps if the other party fails to perform under the terms of the respective swap agreements. VLB also has the right to terminate any of the swaps at any time without cause. In addition, the swaps associated with the Vet Land Tax Ref Bds Ser '99B and the Vet Land Tax Ref Bds Ser 2000 provide the counterparty with the option to terminate the swap under certain conditions. If any of the swaps are terminated, the associated variable-rate bonds would no longer have a synthetic fixed rate and VLB would be subject to interest rate risk to the extent that the variable-rate bonds were not hedged with another swap or with variable-rate assets on VLB's balance sheet. If, at the time of termination for a reason other than the exercise of a termination option held by a counterparty, a swap has a negative fair value, VLB would owe the respective counterparty a termination payment equal to the swap's fair value.

**Rollover Risk:** The swaps associated with the Vet Land Tax Ref Bds Ser '99B and the Vet Land Tax Ref Bds Ser 2000 provide the counterparty with the option to termi-

## Interest Rate Swaps Subject to Rollover Risk

Associated Bond Issue	Maturity Date of Bonds	Option Exercise Date	Swap Termination Date
<b>GENERAL LAND OFFICE – VETERANS LAND BOARD</b>			
Vet Land Tax Ref Bds Ser '99B	12/01/09	04/29/02	12/01/09
Vet Land Tax Ref Bds Ser 2000	12/01/20	04/29/02	12/01/20
<b>TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS</b>			
2004B Single Family	09/01/34	03/01/14	09/01/34
2004D Single Family	03/01/35	09/01/14	03/01/35
2005A Single Family	09/01/36	Anytime with 10 day notice	09/01/36
2006H Single Family	09/01/37	03/01/16	09/01/25
2007A Single Family	09/01/38	Anytime with 10 day notice	09/01/38
<b>TEXAS DEPARTMENT OF TRANSPORTATION</b>			
Mobility Fund GO Bds Ser 2006A	04/01/35	N/A	09/01/27

nate the swap under certain conditions at any time. If either of these swaps is terminated through the counterparty's exercise of its option, the associated variable-rate bonds would no longer have a synthetic fixed rate and VLB would be subject to interest rate risk to the extent that the variable-rate bonds were not hedged with another swap or with variable-rate assets on VLB's balance sheet.

Bonds that are exposed to such rollover risk are shown in the table above.

### Swap Payments and Associated Debt:

Using rates as of Aug. 31, 2009, the estimated debt service requirements of VLB's variable-rate bonds and associated net swap payments, assuming current interest rates and swap index relationships remain the same for their terms, are shown in the tables on the right and the following page: "Pay-Fixed, Receive-Variable Interest Rate Swaps: Estimated Debt Service Requirements of Variable-Rate Debt Outstanding and Net Swap Payments," "Pay-Variable, Receive-Variable Interest Rate Swaps: Estimated Debt Service Requirements of Variable-Rate Debt Outstanding and Net Swap Payments"

and "Pay-Variable, Receive-Variable Interest Rate Swaps: Estimated Debt Service Requirements of Fixed-Rate Debt Outstanding and Net Swap Payments." As rates and index relationships vary in the future, so will the resulting actual interest payments and net swap payments.

### Pay-Variable, Receive-Variable Interest Rate Swaps (TxDOT)

**Objective of the Swaps:** TxDOT is currently a party to three pay-variable, receive-variable constant maturity swaps (CMS) associated with TxDOT's State of Texas General Obligation Mobility Fund Series 2006A fixed rate bonds. These swaps exchange SIFMA rates for LIBOR rates. The swaps are expected to generate an effective lower borrowing cost to TxDOT over the life of the swaps through the assumption of yield curve risk (the difference between short-term and long-term rates) and tax risk (the spread between tax-exempt rates and taxable rates).

**Terms, Fair Values and Credit Ratings:** The terms, fair values and counterparty credit ratings related to the outstanding variable-to-variable basis swaps as of Aug. 31, 2009, are shown in the related tables. The notional amounts and amortization schedules of the swaps match those of the associated variable-rate bonds.

## Pay-Fixed, Receive-Variable Interest Rate Swaps: Estimated Debt Service Requirements of Variable-Rate Debt Outstanding and Net Swap Payments

(Amounts in Thousands)

Year	Variable-Rate Bonds		Interest Rate Swaps, Net	Total
	Principal	Interest		
2010	\$ 78,345	\$ 10,846	\$ 108,472	\$ 197,663
2011	72,195	10,531	105,650	188,376
2012	86,210	10,222	102,912	199,344
2013	92,625	9,849	99,690	202,164
2014	92,485	9,437	96,188	198,110
2015 - 2019	543,615	39,707	421,701	1,005,023
2020 - 2024	553,965	25,737	319,294	898,996
2025 - 2029	576,155	14,906	213,102	804,163
2030 - 2034	496,065	7,724	119,118	622,907
2035 - 2039	437,545	2,585	44,962	485,092
2040 - 2044				
Total	<u>\$ 3,029,205</u>	<u>\$ 141,544</u>	<u>\$ 1,631,089</u>	<u>\$ 4,801,838</u>

## Pay-Variable, Receive-Variable Interest Rate Swaps: Estimated Debt Service Requirements of Variable- Rate Debt Outstanding and Net Swap Payments

(Amounts in Thousands)

Year	Variable-Rate Bonds		Interest Rate Swaps, Net *	Total
	Principal	Interest		
2010	\$ 745	\$ 6,610	\$ 574	\$ 7,929
2011	790	6,596	553	7,939
2012	845	6,582	331	7,758
2013	890	6,567	131	7,588
2014	950	6,550	127	7,627
2015 - 2019	5,700	32,465	598	38,763
2020 - 2024	15,215	31,838	515	47,568
2025 - 2029	26,135	30,824	376	57,335
2030 - 2034	159,610	3,097	112	162,819
2035 - 2039			27	27
Total	<u>\$ 210,880</u>	<u>\$ 131,129</u>	<u>\$ 3,344</u>	<u>\$ 345,353</u>

\* Includes swap payments for swaps that overlay pay-fixed, receive-variable swaps on the same bonds. Principal and interest on these bonds is reported only in the pay-fixed, receive-variable swap table.

counterparties. TxDOT's three currently outstanding swaps are spread among three different counterparties, with no more than 50 percent of the total notional amount of swaps outstanding being associated with any single counterparty.

TxDOT's swap agreements also contain collateralization provisions that require counterparties to post collateral in the full amount of the fair value of the swap if the counterparty's credit rating is downgraded. Only cash in the form of U.S. dollars or U.S. government obligations are acceptable forms of collateral. Posted collateral may be held either by TxDOT or its designated third party custodian.

**Basis Risk:** TxDOT is exposed to basis risk to the extent that the interest payments on its variable-rate bonds do not match the variable-rate payments received on the associated swaps. TxDOT mitigates this risk by (a) matching the notional amount and amortization schedule of each swap to the principal amount and amortization schedule of each associated variable-rate bond issue, (b) selecting an index for the variable-rate leg of each swap that is reasonably expected to closely match the interest rate resets on the associated variable-rate bonds over the life of each bond issue and (c) limiting the

portion of the total portfolio that can be exposed to this risk at a given time.

**Termination Risk:** TxDOT or the counterparties may terminate any of the swaps if the other party fails to perform under the terms of the respective swap agreements. TxDOT also has the right to terminate any of the swaps at any time without cause. TxDOT mitigates termination risk by maintaining a strong financial standing and by maintaining sufficient reserves to cover all or part of a termination payment that might materialize.

## Pay-Variable, Receive-Variable Interest Rate Swaps: Estimated Debt Service Requirements of Fixed-Rate Debt Outstanding and Net Swap Payments

(Amounts in Thousands)

Year	Fixed-Rate Bonds		Interest Rate Swaps, Net	Total
	Principal	Interest		
2010	\$ 1,325	\$ 66,268	\$ (4,601)	\$ 62,992
2011	2,275	66,213	(4,602)	63,886
2012	3,215	66,123	(4,601)	64,737
2013	4,185	65,993	(4,602)	65,576
2014	5,115	65,827	(4,600)	66,342
2015 - 2019	50,690	326,431	(23,006)	354,115
2020 - 2024	282,385	287,991	(23,466)	546,910
2025 - 2029	379,395	213,653	(14,401)	578,647
2030 - 2034	516,470	103,071	474	620,015
2035 - 2039	110,075	5,132	42	115,249
Total	<u>\$ 1,355,130</u>	<u>\$ 1,266,702</u>	<u>\$ (83,363)</u>	<u>\$ 2,538,469</u>

### Risk Exposure of Swap Transactions (TxDOT)

**Credit Risk:** TxDOT mitigates the credit risk associated with its swaps by entering into transactions with highly-rated counterparties. The credit ratings of TxDOT's counterparties range from AAA to A+ by S&P and Aa1 to A2 by Moody's. One of the counterparties experienced a credit downgrade that renders the firm ineligible for future transactions until their ratings are upgraded.

TxDOT also mitigates its concentration of credit risk by diversifying its swap portfolio across several different

**Rollover Risk:** The swaps terminate on Sept. 1, 2027. Final maturity of the associated debt is April 1, 2035. TxDOT accepted the rollover risk for the period beyond Sept. 1, 2027, because extending the term of the swap agreements to match the final maturity of the associated debt provided only marginal projected benefit. Bonds that are exposed to rollover risk are shown in the table “Interest Rate Swaps Subject to Rollover.”

**Swap Payments and Associated Debt:** Using rates as of Aug. 31, 2009, the estimated debt service requirements of TxDOT’s fixed-rate bonds and associated net swap payments, assuming current interest rates and swap index relationships remain the same for their terms, are included in the table on the previous page: “Pay-Variable, Receive-Variable Interest Rate Swaps: Estimated Debt Service Requirements of Fixed-Rate Debt Outstanding and Net Swap Payments.” As rates and index relationships vary in the future, so will the resulting actual interest payments and net swap payments.

**Market-Access Risk:** Market-access risk is the risk that an entity will not be able to enter credit markets or that credit will become more costly. This swap does not present market-access risk because the transaction does not require access to the credit market.

### **Pay-Fixed, Receive-Variable Interest Rate Swaps (TDHCA)**

**Objective of the Swaps:** TDHCA is a party to five pay-fixed, receive-variable interest rate swap agreements with three rated counterparties, UBS AG, Goldman Sachs Capital Markets L.P. and J.P. Morgan Chase & Co. The objective of the swaps is to reduce interest rate risk of certain variable rate demand bonds. Under the terms of the agreements, TDHCA makes periodic fixed interest rate payments in exchange for receiving variable rate payments comparable to the rates payable on the variable rate demand bonds. The swap notional amounts amortize in accordance with the scheduled and/or anticipated reductions in the related variable rate demand bond liability. TDHCA is potentially exposed to loss in the event of non-performance by the counterparties under the swap agreements. Termination of the swap agreements may result in

TDHCA making or receiving termination payments. Each swap agreement includes optional early termination provisions granting TDHCA the right, but not an obligation, to terminate the interest rate swaps at par without a termination payment after an effective date.

**Terms, Fair Values and Credit Ratings:** The terms, fair values and counterparty credit ratings related to the outstanding variable-to-fixed swaps as of Aug. 31, 2009, are shown in the tables titled “Pay-Fixed, Receive-Variable Interest Rate Swaps” and “Pay-Fixed, Receive-Variable Interest Rate Swaps: Estimated Debt Service Requirements of Variable-Rate Debt Outstanding and Net Swap Payments.” The notional amounts and amortization schedules of the swaps match those of the associated variable-rate bonds.

**Credit Risk:** As of Aug. 31, 2009, TDHCA is not exposed to credit risk on any of its outstanding swaps. TDHCA has entered into these transactions with highly-rated counterparties to mitigate credit risk. The swap portfolio is spread among three counterparties. Collateral agreements and insurance policy requirements contained in the swap agreements further mitigate credit risk.

**Basis Risk:** TDHCA’s variable-rate bond coupon payments are equivalent to the SIFMA rate. Payments received on these swaps are a function of LIBOR. As these rates converge, basis risk exposure increases.

**Rollover Risk:** TDHCA is exposed to rollover risk on swap agreements that mature or may be terminated prior to the maturity of the associated debt. Bonds that are exposed to rollover risk are shown in the table “Interest Rate Swaps Subject to Rollover.”

**Swap Payments and Associated Debt:** Using rates as of Aug. 31, 2009, the estimated debt service requirements of TDHCA’s variable-rate bonds and associated net swap payments, assuming current interest rates and swap index relationships remain the same for their terms, are shown in the table “Pay-Fixed, Receive-Variable Interest Rate Swaps: Estimated Debt Service Requirements of Variable-Rate Debt Outstanding and Net Swap Payments.” As rates and index relationships vary in the future, so will the resulting actual interest payments and net swap payments.



### **Pay-Fixed, Receive-Variable Interest Rate Swaps (UT)**

**Objective of the interest rate swap:** UT is currently a party to eight pay-fixed, receive variable interest rate swaps that are associated with four variable rate bond issues. The swap agreements effectively change UT's interest rate on the various bonds, subject to some basis risk discussed below, to a fixed rate. The difference between the swap rate and the rates on the refunded bonds result in present value debt service savings.

**Terms, Fair Values and Credit Ratings:** The terms, fair values and counterparty credit ratings related to all outstanding variable-to-fixed swaps as of Aug. 31, 2009, are shown in the tables titled "Pay-Fixed, Receive-Variable Interest Rate Swaps" and "Pay-Fixed, Receive-Variable Interest Rate Swaps: Variable-Rate Debt Outstanding and Net Swap Payments." The notional amounts and amortization schedules of the swaps match those of the associated variable-rate bonds. The fair value was estimated using market-standard practice, which includes a calculation of future net settlement payments required by the swap, utilizing market expectations implied by the current yield curve for interest rate swap transactions.

**Basis and Termination Risk:** These swap agreements expose UT to basis risk as the variable rates received under these swap agreements do not perfectly match the variable rate paid on the related bond issues.

The swap agreement associated with the Rev Fin Sys Ref Bds Ser. 2001A variable bond may be terminated if the counterparty does not maintain a credit rating of at least Aa3 by Moody's or AA- by S&P. The swap agreement may also be terminated by the counterparty if UT does not maintain a credit rating of at least Aa3 by Moody's or AA- by S&P on its related bonds. As of Aug. 31, 2009, the UT Revenue Financing System obligations and permanent university fund (PUF) obligations were rated Aaa by Moody's and AAA by S&P.

Each of the other swap agreements may be terminated if the respective counterparty does not maintain a credit rating of at least Baa2 by Moody's or BBB by S&P.

**Swap Payments and Associated Debt:** Using rates as of Aug. 31, 2009, the estimated debt service requirements of UT's variable-rate bonds and associated net swap payments, assuming current interest rates and swap index relationships remain the same for their terms, are shown on the table "Pay-Fixed, Receive-Variable Interest Rate Swaps: Estimated Debt Service Requirements of Variable-Rate Debt Outstanding and Net Swap Payments." As rates and index relationships vary in the future, so will the resulting actual interest and net swap payments.

### **Pay-Variable, Receive-Variable Interest Rate Swaps (UT)**

**Objective of the Swaps:** UT is currently a party to four pay-variable, receive-variable interest rate swaps that are associated with one tax-exempt, variable-rate bond issue and one tax-exempt, fixed-rate bond issue. These swaps are LIBOR to SIFMA basis swaps and effectively convert the variable rate on the associated bond issues from a LIBOR (taxable) based rate to a SIFMA (tax-exempt) based rate. The swaps are expected to generate an effective lower borrowing cost to UT over the life of the swaps.

**Terms, Fair Values and Credit Ratings:** The terms, fair values and counterparty credit ratings related to the outstanding variable-to-variable basis swaps as of Aug. 31, 2009, are shown in the tables titled "Pay-Variable, Receive-Variable Interest Rate Swaps," "Pay-Variable, Receive-Variable Interest Rate Swaps: Variable-Rate Debt Outstanding and Net Swap Payments" and "Pay-Variable, Receive-Variable Interest Rate Swaps: Fixed-Rate Debt Outstanding and Net Swap Payments." The notional amounts and amortization schedules of the swaps match those of the associated variable-rate bonds.



# Note 7

## Capital Leases

The state has entered into long-term capital leases to buy certain assets. The capital assets are recorded at the present value of the future minimum lease payments at the inception of the lease plus any cash paid or trade-in value received.

For governmental and business-type activities, the assets and liabilities are recorded in the government-wide financial statements.

The table below is a summary of the future minimum lease payments for capital leases.

### Future Capital Lease Payments

August 31, 2009 (Amounts in Thousands)

Year	Primary Government						Discretely Presented Component Units		
	Governmental Activities			Business-Type Activities					
	Principal	Interest	Total Future Minimum Lease Payments	Principal	Interest	Total Future Minimum Lease Payments	Principal	Interest	Total Future Minimum Lease Payments
2010	\$ 1,667	\$ 506	\$ 2,173	\$ 2,408	\$ 503	\$ 2,911	\$ 164	\$ 4	\$ 168
2011	1,636	395	2,031	1,854	401	2,255	109	2	111
2012	1,662	285	1,947	1,023	325	1,348	2		2
2013	2,148	154	2,302	978	282	1,260			
2014	960	29	989	983	241	1,224			
2015 - 2019				3,622	675	4,297			
2020 - 2024				1,352	216	1,568			
2025 - 2029				325	30	355			
Total	<u>\$ 8,073</u>	<u>\$ 1,369</u>	<u>\$ 9,442</u>	<u>\$ 12,545</u>	<u>\$ 2,673</u>	<u>\$ 15,218</u>	<u>\$ 275</u>	<u>\$ 6</u>	<u>\$ 281</u>

The following table is an analysis of the property recorded under capital leases by asset category at Aug. 31, 2009.

### Assets Under Capital Leases

August 31, 2009 (Amounts in Thousands)

Type	Primary Government				Discretely Presented Component Units*	
	Governmental Activities		Business-Type Activities			
	Assets under Capital Lease	Accumulated Depreciation	Assets under Capital Lease	Accumulated Depreciation	Assets under Capital Lease	Accumulated Depreciation
Land	\$	\$	\$ 456	\$	\$	\$
Buildings	18,084	11,755	10,754	2,067		
Furniture and Equipment	783	65	12,787	3,137		
Vehicles, Boats, etc.			375	231		
Total	<u>\$ 18,867</u>	<u>\$ 11,820</u>	<u>\$ 24,372</u>	<u>\$ 5,435</u>	<u>\$ 0</u>	<u>\$ 0</u>

\* The original cost of each asset reported as a capital lease was lower than the capital asset threshold.





## Note 8

### Operating Leases

Included in rental expenditures or expenses are assets leased on a long-term basis that have been classified as operating leases. The following is a schedule of minimum future rental obligations on noncancelable operating leases as of Aug. 31, 2009.

#### Noncancelable Operating Lease Obligations

August 31, 2009 (Amounts in Thousands)

Year	Minimum Future Lease Payments	
	Primary Government	Component Units
2010	\$ 237,983	\$ 1,059
2011	199,553	734
2012	160,606	355
2013	122,046	262
2014	89,449	232
2015 – 2019	171,743	293
2020 – 2024	9,182	
2025 – 2029	3,966	
2030 – 2034	3,354	
2035 – 2039	2,918	
Total	<u>\$ 1,000,800</u>	<u>\$ 2,935</u>

Additionally, the permanent school fund (PSF) and the University of Texas System (UT) have leased buildings, equipment and land to outside parties under various operating leases. The following is a schedule of estimated future lease rentals on noncancelable operating leases as of Aug. 31, 2009.

#### Noncancelable Operating Lease Rentals

August 31, 2009 (Amounts in Thousands)

Year	Minimum Future Lease Rentals	
	Primary Government	
2010	\$	29,478
2011		33,828
2012		29,058
2013		22,448
2014		19,485
2015 and beyond		333,448
Total	<u>\$</u>	<u>467,745</u>

The historical cost of the PSF leased assets is \$471.3 million. Depreciation is not recorded because the assets are held for investment purposes in a permanent fund. Real estate investments are re-appraised periodically and the carrying amounts are adjusted when permanent impairments occur. In fiscal 2009, PSF reported contingent rental revenues in the amount of \$976.6 thousand.

As of Aug. 31, 2009, the carrying value of UT's leased assets was \$74.6 million. The historical cost of UT's leased buildings is \$98.3 million and related accumulated depreciation is \$27 million. The historical cost of UT's leased land is \$3.3 million. UT did not report any contingent rental revenues.



## Note 9

### Retirement Plans

The state of Texas has three public employee retirement systems (PERS) that administer six defined benefit pension plans. All defined benefit plans are included in the state's financial statements as pension trust funds. Amounts and types of securities held by the retirement systems are included in Note 3. The three entities that administer the plans are: the Employees Retirement System of Texas (ERS), the Teacher Retirement System of Texas (TRS) and the Fire Fighters' Pension Commissioner (FPC). These entities issue separate financial reports. These reports are individually audited with a separate opinion issued for each and may be obtained from the following:

Employees Retirement System of Texas  
P.O. Box 13207  
Austin, Texas 78711-3207

Teacher Retirement System of Texas  
1000 Red River Street  
Austin, Texas 78701-2698

Fire Fighters' Pension Commissioner  
920 Colorado Street, 11th Floor  
Austin, Texas 78701-2332

The state has also established a defined contribution plan as authorized by Texas Gov. Code, Chapter 830. The optional retirement program (ORP) is available as an alternative to the TRS defined benefit pension plan for certain eligible employees of public higher education institutions. In addition, the Texas Guaranteed Student Loan Corporation, a discrete component unit of the state, maintains its own defined contribution retirement plan.

GASB Statement No. 26, *Financial Reporting for Postemployment Healthcare Plans Administered by Defined Benefit Pension Plans*, is not applicable for the state of Texas since the health care plans are not administered by the pension trust funds.

## DESCRIPTION OF PLANS AND FUNDING POLICY

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### Employees Retirement System of Texas

The Board of Trustees of ERS is the administrator of four pension plans. The Employees Retirement System of Texas Plan (ERS Plan) is considered to be a cost-sharing, multiple-employer defined benefit plan with a special funding situation. The employers of the ERS Plan are the state of Texas and one discrete component unit of the state of Texas, the State Bar of Texas. The Law Enforcement and Custodial Officer Supplemental Retirement Plan (LECOS) and the Judicial Retirement System of Texas Plan One and Plan Two (JRS) are considered to be single-employer defined benefit pension plans.

Each plan provides a standard monthly benefit in a life annuity at retirement as well as death and disability benefits for members. A Partial Lump Sum Payment Option is available to members of the employee class, the elected class and law enforcement and custodial officers. A one-time partial lump sum of up to three years of standard annuity at retirement can be taken and the annuity is reduced for life. The benefit and contribution provisions are authorized by state law and may be amended by the Legislature. Contribution requirements are not actuarially determined, but are set by legislation, except for the JRS Plan Two under which state contribution rates are actuari-

ally determined every even-numbered year for the next biennium.

Investments of the ERS administered pension plans are reported at fair value. The fair value is based on published market prices and quotations from major investment brokers at current exchange rates, as available, plus accrued interest and dividends. For investments where no readily ascertainable market value exists, management, in consultation with its investment advisors and the master trust custodian, determines the fair values for the individual investments.

The ERS audited report contains the actuarial valuations as of Aug. 31, 2009, along with an actuarial letter dated Nov. 5, 2009. No subsequent legislative action that would negatively affect their certification of actuarial soundness of the funds was noted.

The ERS Plan, established by the Texas Gov. Code, Title 8, Subtitle B, Chapters 811-815, covers elected class members and employee class members. The funding policy requires monthly contributions by both the state and employees (see the “Funding Information, Actuarial Methods and Assumptions” table). The monthly benefit is determined by the years and months of service multiplied by a statutorily determined percentage and may vary by class.

- The elected class members are vested after eight years of credited service and may retire at age 50 with 12 years of service or at age 60 with eight years of service. The statutory percentage is equal to 2.3 percent of the current state salary of a district judge times the number of years of service credit. Retirement benefits are automatically adjusted as state judicial salaries increase. The maximum standard annuity is 100 percent of the state salary being paid a district judge.
- The employee class includes all employees and appointed officers of the state and excludes independent contractors and their employees and employees covered by TRS and JRS. Other employee class members include certified peace officers and custodial officers. Employee class retirement benefits, with the exception of certified peace officers and custodial officers, vest after five years of credited service and employees may retire at age 60 with five years of ser-

vice or at any age when the combination of age and service (including months) total 80. Certified peace officers and custodial officers may retire at age 55 with 10 years of service as a certified peace officer or custodial officer. The monthly standard annuity equals the statutory percentage of 2.3 percent of the average monthly compensation times the number of years of service credit. The average monthly compensation is the average of the highest 36 months of compensation. The minimum monthly standard annuity is \$150; the maximum standard annuity is 100 percent of the average monthly compensation.

LECOS, established under Texas Gov. Code, Chapter 814.107, covers statutorily certified custodial officers employed by the Texas Department of Criminal Justice, including the Board of Pardons and Paroles, who have contact with inmates of that institution. The fund also covers other commissioned state agency law enforcement officers who are recognized by the Texas Commission on Law Enforcement Officer Standards and Education.

Benefits vest after 20 years of credited service. Covered employees may retire at age 50, if vested, or the age at which the sum of the member's age and amount of service credit in the employee class equals 80. A member under the age of 50 may receive reduced benefits upon completing 20 years of service. The monthly annuity is equal to 2.8 percent of average monthly compensation multiplied by years of service. Average monthly compensation is the average of the highest 36 months of salary out of the member's established service. The minimum monthly standard annuity is \$150; the maximum standard annuity is 100 percent of the average monthly compensation.

There are no member contributions for the LECOS fund. Annual actuarial valuations of the fund are performed to monitor the adequacy of the financing arrangement. During the 2007 legislative session, state funding was appropriated for this fund for the biennium ending Aug. 31, 2009, based on 1.59 percent of covered payroll for LECOS members.

JRS covers judges, justices and commissioners of the Supreme Court, the Court of Criminal Appeals, the Court of Appeals, district courts and certain commissions to a

court. Members prior to Sept. 1, 1985, participate in Plan One and all others participate in Plan Two. Participants in both plans may retire at age 65 with 10 years of service with at least the last year being continuous and currently holding judicial office, or at age 65 with 12 years of service. Members of Plan One and Plan Two may retire at any age with 20 years of service. Prior to Sept. 1, 2005, members of Plan Two were restricted to retirement at age 55 with 20 years of service. Participants in both plans are eligible for reduced early service retirement benefits once they attain age 60 and complete 10 years of service if the member currently holds judicial office with at least the last year being continuous or at age 60 with 12 years of service.

The monthly benefit for members of both plans is equal to 50 percent of the salary for the position from which the member retired and is increased by 10 percent of final compensation if in office within one year of benefit commencement.

Texas Gov. Code, Title 8, Subtitle D, Chapter 835, requires employees to contribute 6 percent of their compensation and the state to make appropriations from the general revenue fund sufficient to administer JRS Plan One. The contribution requirements are not actuarially determined since the plan is not funded in advance. There are actuarial valuations and an actuarial cost method only for fulfilling GASB Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, requirements.

The funding policy of JRS Plan Two is established by Texas Gov. Code, Title 8, Subtitle E, Chapter 840. The state's contribution to the plan is determined each even-numbered year for the next biennium and is based upon an actuarial valuation. Significant actuarial assumptions are the same as those used to compute the net pension benefit.

State statutes prohibit benefit improvements or contribution reductions if, as a result of the particular action, the time required to amortize the ERS, JRS Plan Two or LECOS plans' unfunded actuarial liabilities would be increased to a period that exceeds 30 years by one or more years. The statutes also apply if the amortization period

already exceeds 30 years by one or more years. As of the Aug. 31, 2009, actuarial valuation, contributions are insufficient to amortize the current unfunded accrued liabilities of the ERS and LECOS plans over any period of time. Therefore, there is no remaining amortization period and the 30 year funding objective is not being realized for either plan.

### Teacher Retirement System of Texas

TRS administers retirement, proportional retirement, disability annuities and death and survivor benefits to employees and beneficiaries of employees of the public school system of Texas (TRS Plan). TRS is a multiple-employer PERS. It is a cost-sharing PERS with one exception: risks and costs are generally not shared by the employers (unless the employer is a senior college, medical school or a state agency in which case the employer is considered to be the state of Texas) but are the responsibility of the state of Texas. The state of Texas has elected to report the TRS Plan under the sole-employer provisions of GASB 27 since it is legally responsible for a significant portion of the annual required contributions. The benefit and contribution provisions of the TRS Plan are authorized by state law and may be amended by the Legislature.

All employees of public, state-supported educational institutions in Texas who are employed for one-half or more of the standard work load and who are not exempted from membership under Texas Gov. Code, Title 8, Subtitle C, Chapter 822, are covered by the TRS Plan.

A member is vested after five years of creditable service and is eligible to retire at a future date and receive a lifetime monthly annuity. The normal service retirement is at age 65 with five years of credited service or when the sum of the member's age and years of credited service equals at least 80 years. The service age requirement for early retirement is age 55 with five years of credited service or any age below 50 with 30 years of credited service. The standard life annuity benefit formula is 2.3 percent of the average of the five highest annual salaries multiplied by the years of service. For members who are "grandfathered," the three highest annual salaries are used. At normal retirement age, the minimum monthly standard annuity is the greater of \$150 or the formula standard annuity. Total

payments shall in no case be less than accumulated contributions at retirement.

At Aug. 31, 2009, the number of participating employing districts was as follows.

Employing Districts	
Public Schools, Service Centers and Charter Schools	1,259
Colleges, Universities and Medical Schools	103
Educational State Agencies	2
Total	1,364

Investments of the TRS Plan are reported at fair value. The fair value of investments is based on published market prices and quotations at current exchange rates. The fair value of commingled funds is based on the net asset value of the fund at the valuation date. For alternative investments where no readily ascertainable market value exists, management has determined fair values for individual investments based on the capital account balance at the closest available reporting period, adjusted for subsequent contributions, distributions, management fees and reserves.

TRS offers to all service and eligible disability retirees several annuity payment options that reduce the standard annuity by application of age-related actuarial reduction factors in order to continue payment to a beneficiary after the retiree's death. The available options include 100, 75 and 50 percent joint and survivor annuities and five and 10 year guaranteed period annuities.

TRS also offers two other annuity payment options:

- The Deferred Retirement Option Plan (DROP)  
DROP allows members to freeze their standard annuity and, instead of retiring, to have a portion of the frozen standard annuity deposited into a DROP account while continuing to work for a TRS-affiliated employer. Members may elect to participate in the DROP program for up to five years. The plan was closed for new participants effective Dec. 31, 2005.
- A Partial Lump-Sum Cash Option (PLSO)  
PLSO reduces the standard monthly annuity and provides a cash lump sum distribution. Members may participate in the PLSO if they are eligible for service retirement and meet the Rule of 90 (age and years of

service credit equal at least 90), are not participating in the DROP plan and are not retiring with disability benefits.

Contribution requirements are not actuarially determined, but are legally established each biennium pursuant to the following state funding policy.

The Texas Constitution requires the Legislature to establish a member contribution rate of not less than 6 percent of the member's annual compensation and a state contribution rate of not less than 6 percent and not more than 10 percent of the aggregate annual compensation of all members of the TRS Plan during that fiscal year. A state statute prohibits benefit improvements or contribution reductions if, as a result of the particular action, the time required to amortize the TRS Plan's unfunded actuarial liabilities would be increased to a period that would exceed 30 years by one or more years, or, if the amortization period already exceeds 30 years by one or more years, the period would be increased by such action. As of the Aug. 31, 2009, actuarial valuation, contributions are insufficient to amortize the current unfunded accrued liabilities of the TRS Plan over any period of time. Therefore, there is no remaining amortization period and the 30 year funding objective is not being realized.

### Optional Retirement Program

All public higher education and public K-12 education employees employed in a position that is eligible for the TRS defined benefit pension plan are automatically enrolled in TRS on their first day of employment.

Full-time faculty, librarians and certain professionals and administrators employed in public higher education are eligible to elect the Optional Retirement Program (ORP) in lieu of the TRS Plan before the 91st day after becoming eligible. It is a one-time irrevocable choice between two distinct plans. The ORP is administered by the benefits offices at each employer. The Texas Higher Education Coordinating Board develops policies, practices and procedures to provide greater uniformity in the administration of the ORP.

The ORP is a defined contribution pension plan in which each participant selects from a variety of investments offered by several companies through annuity contracts or mutual fund investments. These types of investments are authorized by Section 403(b) of the Internal Revenue Code. With the purchase of these individual contracts, the state has effectively transferred the obligation for the payment of benefits to the company. Benefits in the ORP vest after one year of participation.

The contributory percentages of participant salaries provided by each participant and the state were 6.65 percent for the participant and 6.58 percent for the state. Institutions and agencies authorized under state law to provide ORP to their employees may supplement the state contribution at a rate up to 1.92 percent of payroll.

Individual accounts are maintained at the insurance and investment companies selected by each ORP participant. Separate financial statements for ORP are not prepared because the state retains no liability for plan performance and has very limited administrative involvement.

## Retirement Systems' Membership

	ERS	LECOS	JRS1	JRS2	TRS	TESRS*
Retirees and Beneficiaries Currently Receiving Benefits	75,722	6,647	461	152	284,614	2,065
Terminated Employees Entitled to Benefits But Not Yet Receiving Them	72,585	39	7	134	59,884	2,249
Current Employees: Vested and Non-Vested	<u>141,223</u>	<u>37,819</u>	<u>23</u>	<u>533</u>	<u>946,474</u>	<u>4,371</u>
Total Members	<u>289,530</u>	<u>44,505</u>	<u>491</u>	<u>819</u>	<u>1,290,972</u>	<u>8,685</u>

\* This total does not include the 500 retirees and beneficiaries from the TLFFRA (Texas Local Firefighters Retirement Act) plan as of Aug. 31, 2009.

## Funding Information, Actuarial Methods and Assumptions

(Amounts in Thousands)

	ERS	LECOS	JRS1	JRS2	TRS	TESRS*
Contribution Rates						
Employees	6.0%	0.0%	6.0%	6.0%	6.4%	N/A
Legislators	8.0%	N/A	N/A	N/A	N/A	N/A
Employer**	6.45%	1.59%	N/A	16.83%	6.58%	N/A
Annual Pension Cost	\$530,647	\$33,317	\$24,868	\$13,153	\$1,278,488	\$3,161
Employer Contributions Made***	\$362,545	\$20,657	\$28,194	\$11,356	\$1,373,746	\$2,439
Actuarial Valuation Date	Aug. 31, 2009	Aug. 31, 2009	Aug. 31, 2009	Aug. 31, 2009	Aug. 31, 2009	Aug. 31, 2008
Actuarial Cost Method	Entry Age Normal	Entry Age Normal	Entry Age Normal	Entry Age Normal	Entry Age Normal	Entry Age
Amortization Method	Level Percent Open	Level Percent Open	Level Dollar Open	Level Percent Open	Level Percent Open	Level Dollar Open
Amortization Period	30 years	30 years	30 years****	4.8 years*****	30 years	6 years
Asset Valuation Method	Expected value plus 20% of the difference between market-related value and expected value	Expected value plus 20% of the difference between market-related value and expected value	N/A	Expected value plus 20% of the difference between market-related value and expected value	5-year Smoothed Market	5-year Smoothed Market
Actuarial Assumptions:						
Investment Rate of Return	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%
Projected Salary Increases	0.0%-13.5%	5.5%-13.5%	3.5%	3.5%	4.25%-26.4%	N/A
Includes Inflation at	3.5%	3.5%	3.5%	3.5%	3.0%	3.5%
Cost-of-Living Adjustments	None-Employee 3.5%-Elected	None	3.5%	None	None	None

\* Contributions and benefits are not based on the salaries of members.

\*\* The plan for JRS1 is closed to new participants and the state contributions are based upon benefits paid to participants during the year. Contribution requirements for JRS2 are actuarially determined each even-numbered year. TRS and ERS contribution requirements are based on actuarial evaluations as established by state statute.

\*\*\* Contributions do not include \$8.8 million of state appropriations to the TESRS plan.

\*\*\*\* There is no advance funding for JRS1.

\*\*\*\*\* The amortization period was calculated based on estimated fiscal 2010 covered payroll. At the end of fiscal 2010, the ARC and the amortization period will be recalculated based on actual 2010 covered payroll.

The employers of the ORP are state universities, one educational state agency and several two-year college institutions that are not part of the state reporting entity. State entity participation in the ORP plan for fiscal 2009 resulted in participant contributions of \$200.3 million and employer contributions of \$238.6 million.

Updated information for the complete ORP plan will be available in the fiscal 2009 *ORP Participation Report Summary* published annually by the Texas Higher Education Coordinating Board. For the year ended

Aug. 31, 2008, the ORP plan had 40,189 participants. The total participant contributions were \$237.1 million and total employer contributions were \$277 million. ORP participation reports may be obtained from the following:

Statewide Coordinator, Optional Retirement Program  
Texas Higher Education Coordinating Board  
P.O. Box 12788  
Austin, TX 78711-2788



## **Texas Guaranteed Student Loan Corporation**

The Texas Guaranteed Student Loan Corporation (TGS LC), a discrete component unit of the state, maintains its own defined contribution retirement plan, the TGS LC Money Purchase Pension Plan and Trust (the Plan). The Plan covers substantially all employees of the TGS LC. As of June 30, 2009, there were 686 participants in the Plan. Participants vest at 20 percent after two years of service. Thereafter, vesting increases each year by 20 percent until fully vested after six years of service. Participants who terminate employment at 65 years of age or older, or who become disabled or die while employed, are fully vested. Employees do not contribute to the Plan; TGS LC's contributions to the Plan are generally based on 9 percent of gross annual salaries, net of forfeitures. Total payroll and covered payroll was approximately \$36.5 million and \$35.2 million, respectively, in the Plan year ended June 30, 2009. Total TGS LC contributions were approximately \$3.1 million for the fiscal year ended Sept. 30, 2009. Plan amendments are subject to the Plan's Board of Trustees' approval and the TGS LC Board of Directors' ratification. Additional information about the Plan may be obtained from the following:

Texas Guaranteed Student Loan Corporation  
P.O. Box 201725  
Austin, TX 78720-1725

## **Fire Fighters' Pension Commissioner**

FPC is the administrator of the Texas Emergency Services Retirement System (TESRS), a cost-sharing multiple-employer pension plan established and administered by the state of Texas to provide pension benefits for emergency services personnel who serve without significant monetary remuneration. At Aug. 31, 2009, there were 195 member fire departments participating in TESRS.

The statutory authority for TESRS is found in Texas Gov. Code, Title 8, Subtitle H, Chapters 861-865. The governing bodies of participating departments are required to contribute at least the minimum prescribed amount per month for each active member. No contributions are required by individual members of participating depart-

ments. Additional contributions may be made by a governing body to pay for granting credit for service before the department began participating in TESRS. The state may also be required to make a limited amount of annual contributions to make the fund actuarially sound. The contributions may not exceed the amount of one-third of the total of all contributions by governing bodies in one year. The state is not an employer of the TESRS plan; therefore, the sole-employer reporting provisions of GASB 27 for net pension obligation calculations are not applicable.

Investments of TESRS are reported at fair value. The fair value of investments is based on market prices provided by the fund custodian, State Street Bank and Trust. For investments where no readily ascertainable market value exists, management, in consultation with its investment advisors, determines the fair values for the individual investments.

Eligible members include volunteer emergency service personnel who are members in good standing with a qualifying fire-fighting unit. Effective Jan. 1, 2007, the TESRS board amended the vesting and reduced the compounded amount paid for each year of service over 15 years. The TESRS board protected currently vested members by "grandfathering" vested accrued benefits as of Dec. 31, 2006.

Through Dec. 31, 2006, a current member became vested upon completing at least five years of qualified service. These members were vested, beginning with the fifth year of service, at 5 percent per year of service for the first 10 years and 10 percent for each of the next five years of service.

Effective Jan. 1, 2007, a member must have at least ten years of qualified service to become vested. Those members are vested at 50 percent and accrue an additional 10 percent for each of the next five years of service.

Vested members are eligible to receive a pension for life starting at age 55 that is equal to six times the average contribution rate paid by the governing entity over the member's period of qualified service. For years of service in excess of 15 years, this monthly benefit is increased at the rate of 7 percent compounded annually for "grandfa-



thered” members, or 6.2 percent for members vested under the amended Jan. 1, 2007, TESRS board rules.

Actuarial valuations are performed biennially. Death and disability benefits are dependent on whether or not the member was engaged in the performance of duties at the time of death or disability. Death benefits include a lump-sum amount and continuing monthly payments to a member’s spouse and dependents.

The member fire department contributions to the fund for the years ending Aug. 31, 2009, 2008 and 2007, were \$2.7 million, \$2.4 million and \$2.5 million, respectively. Contributions made were equal to the yearly statutorily required contributions. In addition, the Legislature appropriated \$8.8 million of contributions for the fiscal year ending Aug. 31, 2008.

The Texas Local Fire Fighters’ Retirement Act (TLFFRA) allows participating cities to administer local fire fighter pension funds. These individually managed funds have varied contribution requirements. FPC provides oversight, records administration and other administrative support to the locally managed pension plans.

Upon election, a department under TLFFRA can merge with the TESRS plan. At Aug. 31, 2009, there were 103 plans merged into the TESRS plan. Benefit determinations for these merged plans are determined by each local governing board. Authority for contributions is established by statute.

Separate accounts are maintained for each merged plan. The vested members of former TLFFRA plans will be paid by FPC with funds received from the local governing bodies on a pay-as-you-go basis. There are no reserves required in the TLFFRA retirement program. Fund assets are always offset by an equal amount of fund liabilities in accordance with the statutory requirements of the TLFFRA retirement program. As of Aug. 31, 2009, membership consisted of 500 retirees and beneficiaries currently receiving TLFFRA benefits.

### Annual Pension Cost and Net Pension Obligation

The state’s annual pension cost and net pension obligation for plans subject to sole-employer provisions of GASB 27 for fiscal 2009 are presented below.

## Annual Pension Cost and Net Pension Obligation

(Amounts in Thousands)

	ERS	LECOS	JRS1	JRS2	TRS*	TESRS**
Annual Required Contribution, ARC	\$ 529,888	\$ 33,189	\$ 25,325	\$ 11,080	\$ 1,273,533	\$ 3,161
Interest on Net Pension Obligation, NPO	3,044	515	6,668	(554)	24,735	N/A
Adjustment to ARC	(2,285)	(387)	(7,125)	2,627	(19,780)	N/A
Annual Pension Cost	<u>530,647</u>	<u>33,317</u>	<u>24,868</u>	<u>13,153</u>	<u>1,278,488</u>	<u>3,161</u>
Employer Contributions Made	<u>362,545</u>	<u>20,657</u>	<u>28,194</u>	<u>11,356</u>	<u>1,373,746</u>	<u>2,439</u>
Increase (Decrease) in NPO	<u>168,102</u>	<u>12,660</u>	<u>(3,326)</u>	<u>1,797</u>	<u>(95,258)</u>	<u>N/A</u>
Net Pension Obligation/(Asset), September 1, 2008	<u>38,050</u>	<u>6,442</u>	<u>83,360</u>	<u>(6,928)</u>	<u>309,184</u>	<u>N/A</u>
Net Pension Obligation/(Asset), August 31, 2009***	<u>\$ 206,152</u>	<u>\$ 19,102</u>	<u>\$ 80,034</u>	<u>\$ (5,131)</u>	<u>\$ 213,926</u>	<u>N/A</u>

\* The sole-employer provisions of GASB 27 apply to TRS.

\*\* An NPO calculation is not applicable for TESRS because the state is not an employer in the TESRS plan. Contributions do not include \$8.8 million of state appropriations to the FPC plan.

\*\*\* See "Funding Information, Actuarial Methods and Assumptions" table for actuarial assumptions used in determining cost and obligation.

## Trend Information

Trend information gives an indication of the progress made in accumulating sufficient assets to pay benefits when due.

The table below presents the three-year trend information regarding annual pension cost and net pension obligation of the plans.

Three-Year Trend Information			
(Amounts in Thousands)			
Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
Employees Retirement System of Texas (ERS)			
08/31/09	\$ 530,647	68.3%	\$ 206,152
08/31/08	378,269	90.3%	38,050
08/31/07	369,599	89.2%	1,409
Law Enforcement and Custodial Officer Supplemental Retirement (LECOS)			
08/31/09	\$ 33,317	62.0%	\$ 19,102
08/31/08	19,678	102.6%	6,442
08/31/07	6,956	0.0%	6,956
Judicial Retirement System Plan One (JRS1)			
08/31/09	\$ 24,868	113.4%	\$ 80,034
08/31/08	26,791	107.0%	83,360
08/31/07	28,497	101.9%	85,225
Judicial Retirement System Plan Two (JRS2)			
08/31/09	\$ 13,153	86.3%	\$ (5,131)
08/31/08	11,480	97.0%	(6,928)
08/31/07	11,148	97.9%	(7,270)
Teacher Retirement System of Texas (TRS)			
08/31/09	\$ 1,278,488	107.5%	\$ 213,926
08/31/08	1,432,030	101.3%	309,184
08/31/07	1,722,454	85.4%	328,182
Texas Emergency Services Retirement System (TESRS)*			
08/31/08 **	\$ 3,161	356.0%	N/A
08/31/06 **	2,753	100.0%	N/A
08/31/04	2,897	65.0%	N/A
* TESRS is not subject to NPO calculation because the state is not an employer in the TESRS plan.			
** Actuarial assumptions and methodology were changed for the Aug. 31, 2006, and Aug. 31, 2008, valuations.			

## Funded Status

The state's pension plans funded status information for each plan as of Aug. 31, 2009, is presented below.

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Included in the audited financial reports for ERS, TRS and FPC are:

- (1) Schedules of funding progress that include historical trend information about the actuarially determined funded status of the plan from a long-term on-going plan perspective and the progress made in accumulating sufficient assets to pay benefits when due.
- (2) Schedules of employer contributions that include historical trend information about the Annual Required Contributions (ARC) of the employer and the contributions made by the employers in relation to the ARC.

## Funded Status

(Amounts in Thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL)* (b)	Excess of Assets over AAL (Unfunded AAL) (a) - (b)	Funded Ratio (a)/(b)	Covered Payroll* (c)	Excess/UAAL as a Percentage of Covered Payroll ((a-b)/c)
Employees Retirement System of Texas (ERS)						
08/31/09	\$ 23,509,622	\$ 26,191,650	\$ (2,682,028)	89.8%	\$ 5,814,417	(46.1)%
Law Enforcement and Custodial Officer Supplemental Retirement (LECOS)						
08/31/09	\$ 780,808	\$ 870,179	\$ (89,371)	89.7%	\$ 1,464,483	(6.1)%
Judicial Retirement System Plan One (JRS1)						
08/31/09	\$ 0	\$ 268,275	\$ (268,275)	0.0%	\$ 2,965	(9,048.1)%
Judicial Retirement System Plan Two (JRS2)						
08/31/09	\$ 248,279	\$ 255,569	\$ (7,290)	97.1%	\$ 67,968	(10.7)%
Teacher Retirement System of Texas (TRS)						
08/31/09	\$ 106,383,566	\$ 128,029,304	\$ (21,645,738)	83.1%	\$ 35,096,890	(61.7)%
Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Excess of Assets over AAL (Unfunded AAL) (a) - (b)	Funded Ratio (a)/(b)	Total Members Covered (not rounded)	Excess/UAAL Per Member Covered (not rounded)
Texas Emergency Services Retirement System (TESRS)						
08/31/08**	\$ 60,987	\$ 64,227	\$ (3,240)	95.0%	8,254	\$ (393)
<p>* The AAL and Covered Payroll calculations incorporate changes made by 81st Legislature, Regular Session, House Bill 2559, which modified benefits for members hired after Aug. 31, 2009.</p> <p>** Actuarial assumptions and methodology were changed for the Aug. 31, 2008, valuation.</p>						



## Note 10

### Deferred Compensation

The state of Texas offers to all state employees two deferred compensation plans. One is established in accordance with Internal Revenue Code, Section 457. The second is established in accordance with Internal Revenue Code, Section 401(k). All costs of administering and funding these programs are the responsibility of plan participants. The assets of the two plans remain the property of the contributing employees and are not presented in the accompanying financial statements. The state makes no contributions to either plan, the assets do not belong to the state and the state has no liability related to the plans.

The University of Texas System (UT) offers its own deferred compensation plan, created in accordance with Internal Revenue Code, Section 457(b). All UT employees are eligible to participate in UT's plan and do not participate in the plan offered by the state of Texas. All investments, amounts, property and rights held under the deferred compensation trust fund are held for the exclusive benefit of participants and beneficiaries at the fair market value of the plan account for each participant. UT has no liability under the plan.

The Texas State Affordable Housing Corporation (TSAHC), a discrete component unit of the state, offers its own deferred compensation plan, created in accordance with Internal Revenue Code, Section 401(k). All TSAHC employees are eligible to participate in TSAHC's plan and do not participate in the plan offered by the state of Texas. The state of Texas does not contribute to the plan. TSAHC is not the plan administrator and has no liability under the plan.



## Note 11

### Postemployment Health Care and Life Insurance Benefits

In addition to providing pension benefits, the state of Texas contributes to four plans that provide health care and life insurance benefits for retired employees, their spouses

and beneficiaries. These other postemployment benefits (OPEB) are authorized by statute and contributions are determined by the General Appropriations Act.

The state of Texas is a participating employer in three different OPEB plans and is an on-behalf contributor to one plan. The financial statement recognition and note disclosure requirements in GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, were applied separately for each plan. The following note disclosures are organized by OPEB plan administrator.

#### University of Texas and Texas A&M University Systems

The state of Texas contributes to two single-employer defined benefit retiree health care plans: the UT System Employee Group Insurance Program (UT plan) and A&M Care Health and Life Plan (A&M plan). The UT plan is administered by the University of Texas System and the A&M plan is administered by the Texas A&M University System.

The University of Texas System (UT) and the Texas A&M University System (A&M) elected to implement GASB 45 in fiscal 2008. The results of the annual OPEB valuations for the UT and A&M plans are incorporated into this note. Each system issues a publically available financial report that includes financial statements and required supplementary information. Those reports may be obtained by writing to the systems at the following addresses:

University of Texas System  
601 Colorado Street  
Austin, Texas 78701-2982

Texas A&M University System  
200 Technology Way  
College Station, Texas 77845

#### Plan Descriptions

Each plan provides separate postemployment health care and life insurance coverage to university system retirees, surviving spouses and beneficiaries. UT and A&M are part of the state of Texas primary government. Employees

of these systems are considered to be state employees. Benefit provisions for the UT and A&M plans are established and amended by the administering systems as allowed under Texas Insurance Code, Chapter 1601. Retiree eligibility for insurance continuation after employment is determined by the Legislature and is subject to change.

### Funding Policy

The university system and member contribution rates are determined annually by each system based on the recommendations of the employee benefits office and consulting actuaries. The plan rates are based on the plan costs that are expected to be incurred, the funds appropriated for the plans and the funding policy established by the Legislature in connection with benefits provided through the plan. Amounts contributed by the state are currently based on pay-as-you-go financing requirements determined during each legislative session. State contribution requirements are established and may be amended by the Legislature. Since fiscal 2009 is the second year of application of GASB 45, only a two year history of employer contributions and annual OPEB costs is presented below.

### Schedule of Contributions from the Employers and Other Contributing Entities

(Amounts in Thousands)

Fiscal Year Ending	Employer Contribution	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
UT Plan				
8/31/09	\$ 105,356	\$ 523,703	20.1%	\$ 841,025
8/31/08	99,892	522,570	19.1%	422,678
A&M Plan				
8/31/09	\$ 37,325	\$ 116,890	31.9%	\$ 219,873
8/31/08	36,284	176,593	20.5%	140,309

For the fiscal year ended Aug. 31, 2009, the state made monthly contributions for health care and life insurance to the UT and A&M plans. Contribution rates are shown below. Costs are estimated by an actuary for claims expected to be paid during the year. The retiree contributes any premium over and above state contributions.

### Employer Contribution Rates – Retiree Health and Basic Life Premium

For the Fiscal Year Ended August 31, 2009

Level of Coverage	UT Plan	A&M Plan
Retiree Only	\$ 369	\$ 376
Retiree/Spouse	563	552
Retiree/Children	493	486
Retiree/Family	687	639

### Annual OPEB Cost and Net OPEB Obligation

The state's annual OPEB cost for the UT and A&M plans is calculated based on the annual required contributions of the employers (ARC). The ARC is an amount actuarially determined in accordance with the parameters of GASB 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period no greater than 30 years. The following table shows the components of the annual OPEB cost for the year for the UT and A&M plans.

### Annual OPEB Cost and Net OPEB Obligation

(Amounts in Thousands)

	UT Plan	A&M Plan
Annual Required Contribution, ARC	\$ 514,765	\$ 112,570
Interest on Net OPEB Obligation	29,587	13,189
Adjustment to ARC	(20,649)	(8,869)
Annual OPEB Cost	<u>523,703</u>	<u>116,890</u>
Employer Contributions Made	<u>105,356</u>	<u>37,326</u>
Increase Net OPEB Obligation	<u>418,347</u>	<u>79,564</u>
Net OPEB Obligation, September 1, 2008	<u>422,678</u>	<u>140,309</u>
Net OPEB Obligation, August 31, 2009	<u>\$ 841,025</u>	<u>\$ 219,873</u>

## Funded Status and Funding Progress

The funded status of the UT and A&M plans as of Aug. 31, 2009, is disclosed below.

<b>Funded Status</b> (Amounts in Thousands)		
	<b>UT Plan</b>	<b>A&amp;M Plan</b>
Actuarial Accrued Liability (AAL)	\$ 5,102,765	\$ 1,258,563
Actuarial Value of Plan Assets	0	0
Unfunded Actuarial Accrued Liability (UAAL)	<u>\$ 5,102,765</u>	<u>\$ 1,258,563</u>
Funded Ratio (actuarial value of plan assets/AAL)	0.0%	0.0%
Covered Payroll (active plan members)	\$ 4,820,568	\$ 1,260,683
UAAL as a Percentage of Covered Payroll	105.9%	99.8%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with

past expectations and new estimates are made about the future. The schedule of funding progress is presented as required supplementary information following the notes to the financial statements. The schedule presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

## Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used in the UT and A&M plan valuations include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. See the table below for additional detail on the actuarial methods and assumptions used in the UT plan and A&M plan valuations.

<b>Summary of Actuarial Methods and Assumptions</b>		
	<b>UT Plan</b>	<b>A&amp;M Plan</b>
Actuarial Valuation Date	Dec. 31, 2008	Sept. 1, 2008
Actuarial Cost Method	Entry Age Normal	Entry Age Normal
Amortization Method	Level Percent Open	Level Percent Open
Amortization Period	30 years	30 years
Asset Valuation Method	Market	N/A
Actuarial Assumptions:		
Investment Rate of Return	7%	9.4%
Includes Inflation at	4%	4%
Health Care Trend Rates	8% initial 6% ultimate	8% initial 6% ultimate

### Employees Retirement System of Texas

The Employees Retirement System (ERS) administers a program that provides postemployment health care, life and dental insurance benefits to retirees through the Group Benefits Program as authorized by Texas Insurance Code, Section 1551.102. The State Retiree Health Plan (SRHP) is a cost-sharing multiple-employer defined benefit plan with 56 participating employers.

In a cost-sharing multiple-employer plan without a special funding situation, employers recognize their annual contractually required contributions to the plan in the fund financial statements. Because the SRHP is funded by multiple employers the GASB 45 special funding situation does not apply.

For cost-sharing multiple-employer defined benefit plans like the SRHP, the amount of OPEB liability or asset is equal to the difference between contributions required and contributions made. Contractually required contributions to a cost-sharing multiple-employer OPEB plan are not required to be based on the plan ARC. The contractually required contributions of the SRHP are currently set equal to the pay-as-you-go annual cost of the plan benefits.

Each employer has limited note disclosure requirements under the cost-sharing multiple-employer provisions of GASB 45. Additionally, each employer is not required to disclose the actuarial information as it relates to the entire plan on their individual employer report. Instead, the OPEB plan discloses all required actuarial calculations in the notes to their financial statements and required supplementary information. ERS issues a publically available financial report that includes financial statements and required supplementary information for the SRHP. That report may be obtained by writing to ERS at the following address:

Employees Retirement System of Texas  
P.O. Box 13207  
Austin, Texas 78711-3207

### Plan Description

Retirees of state agencies, state universities (not part of UT and A&M) and other non-state entities selected by the Legislature are eligible to receive these OPEB through the SRHP. Retirees must meet certain age and service requirements and have at least 10 years of service at retirement to participate in the plan. Surviving spouses and dependents of retirees are also covered by the plan. Benefit and contribution provisions of the SRHP are authorized by state law and may be amended by the Legislature.

The financial statements of the SRHP are reported using the accrual basis of accounting. Contributions are recognized when due, pursuant to state law. Benefits and refunds of contributions are recognized when due and payable in accordance with the terms of the plan.

Investments of the SRHP are reported at fair value. The fair value is based on published market prices and quotations from major investment brokers at current exchange rates, as available, plus accrued interest and dividends. For investments where no readily ascertainable market value exists, management, in consultation with its investment advisors and the master trust custodian, determines the fair values for the individual investments.

### Funding Policy

The Legislature sets and has the power to amend annual state contributions to the SRHP. Currently, the state pays 100 percent of eligible retiree health insurance premiums and 50 percent of dependents' premiums. The retiree contributes any premium over and above state contributions. The chart below summarizes the maximum monthly employer contribution toward the health and basic life premiums of eligible retirees.

Employer Contribution Rates – Retiree Health and Basic Life Premium	
For the Fiscal Year Ended August 31, 2009	
Level of Coverage	ERS SRHP
Retiree Only	\$ 361
Retiree/Spouse	567
Retiree/Children	498
Retiree/Family	705



Contractually required contributions to the plan are currently based on the annual pay-as-you-go expenses of the SRHP. In fiscal 2009 the state contributed \$394.5 million to the SRHP, which equaled the required contribution.

### Teacher Retirement System of Texas

The Teacher Retirement System of Texas (TRS) administers a program that provides benefits to public school district retirees with at least 10 years of service. The Texas Public School Retired Employees Group Insurance Program (TRS-Care), a cost-sharing multiple-employer defined benefit plan with 1,258 participating employers, provides a free basic level of coverage for eligible retirees and optional coverage for eligible retirees and their dependents.

The state of Texas is not an employer in the TRS-Care OPEB plan and is not legally required to continue contributing benefits. A special funding situation is not created because costs are shared between the state and the many participating non-state school district employers. The fiscal 2009 contributions to the TRS-Care OPEB plan are displayed below.

Schedule of Contributions from the Employers and Other Contributing Entities	
For the Fiscal Year Ended August 31, 2009 (Amounts in Thousands)	
	TRS-Care
From Reporting Entities	\$ 149,563
On Behalf From State	267,471
On Behalf From Federal Government	61,531
	<u>\$ 478,565</u>

TRS issues a publically available financial report that includes financial statements and required supplementary information for TRS-Care. That report may be obtained by writing to TRS at the following address:

Teacher Retirement System of Texas  
1000 Red River Street  
Austin, Texas 78701-2698

### Plan Description

Basic coverage includes participation in a major medical group health insurance plan with deductibles based upon enrollment in Part A or Part B of Medicare. Eligibility provisions of the TRS-Care plan are established in Texas Insurance Code, Chapter 1575.

The financial statements for TRS-Care are reported using the accrual basis of accounting. Contributions are recognized in the period in which amounts are due, pursuant to state law. Benefits and refunds of contributions are recognized when due and payable in accordance with the terms of the plan.

Investments of TRS-Care are reported at fair value. The fair value of investments is based on published market prices and quotations at current exchange rates. For investments where no readily ascertainable market value exists, management has determined fair values for the individual investments based on the capital account balance at the closest available reporting period, adjusted for subsequent contributions, distributions, management fees and reserves.

### Funding Policy

Funding for free basic coverage is provided based on public school district payroll. The state and active school employee contribution rates are 1 percent and 0.65 percent of school district payroll, respectively, with school districts also contributing 0.55 percent of payroll.

TRS-Care retiree health care and life insurance benefits are financed on a pay-as-you-go basis. The expenditures are recognized when reimbursements are made for claims paid by non-state entities or when premiums are paid.

In fiscal 2009 the state contributed \$267.5 million to TRS-Care. The state is not contractually required to contribute to the TRS-Care plan because it is not an employer in the plan.

### Medicare Part D

In fiscal 2009 the administrators of each OPEB plan received payments from the federal government pursuant to the retiree drug subsidy provisions of Medicare Part D. GASB Statement No. 24, *Accounting and Financial*

*Reporting for Certain Grants and Other Financial Assistance*, requires that these on-behalf payments be recorded as revenues and expenses of each plan. The OPEB administrators reported the following amounts of Medicare Part D payments from the federal government in fiscal 2009.

Medicare Part D Receipts	
For the Fiscal Year Ended August 31, 2009 (Amounts in Thousands)	
UT Plan	\$ 5,458
A&M Plan	3,778
ERS SRHP	35,784
TRS-Care	61,531
	<u>\$ 106,551</u>



## Note 12

### Interfund Activity and Transactions

Interfund activity refers to financial interactions between funds and/or blended component units and is restricted to internal events. Interfund transactions under GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, refer to financial interactions with legally separate entities, i.e., discrete component units and other governments, and are restricted to external events.

#### Reciprocal Interfund Activity

Interfund loans are reciprocal interfund activity between funds and blended component units with a requirement for repayment. These loans are reported as interfund receivables/payables, classified as either current or noncurrent.

Interfund services are sales and purchases of goods and services between funds for a price approximating their external exchange value. This activity is reported as revenues in seller funds and expenditures or expenses in purchaser funds. Unpaid amounts are reported as receivables and payables.

#### Nonreciprocal Interfund Activity

Interfund transfers are nonreciprocal interfund activity. This activity refers to flows of assets without equivalent flows of assets in return and without a requirement for repayment. In governmental funds, transfers are reported as other financing sources or uses. In proprietary funds, transfers are reported after nonoperating revenues and expenses. The majority of transfers are legally authorized by statute or bond covenant to move amounts from one fund to another. Amounts not transferred at fiscal year-end are accrued as "due from/due to." Activity occurring within the same fund has been eliminated. Additional eliminations have been made and transfers in and out have been netted and presented in the government-wide statement of activities as "transfers-internal activities."

According to GASB 34, certain reclassifications and eliminations have been made between the fund financial statements and the government-wide financial statements. Resource flows between the primary government and its discretely presented component units have been reported as revenues and expenses, as if they were external transactions on the fund financial statements and the government-wide financial statements. Transfers between the governmental or business-type activities and the fiduciary funds have been reported as transfers on the fund financial statements and were reclassified to revenues and expenses, as if they were external transactions on the government-wide financial statements.

Due from/due to amounts between the primary government and the discretely presented component units are reported separately from due from/due to amounts between funds in the fund financial statements and the government-wide financial statements, according to GASB 34. Due from/due to amounts between governmental or business-type activities and fiduciary funds are reported as due from/due to amounts between funds in the fund financial statements and are reclassified to receivables from fiduciary funds/payables to fiduciary funds, as if they were external transactions on the government-wide financial statements.

Interfund reimbursements are repayments from funds responsible for payment of expenditures or expenses to the

funds that actually made the payment. Reimbursements are not displayed in the financial statements.

For the state of Texas, routine transfers are those transfers from unrestricted revenue collected in the general revenue fund to finance various programs accounted for in other funds in accordance with the General Appropriations Act, which is the primary budget document for the state of Texas. Other transfers are legally authorized by statute to move resources from one fund to another. The noncurrent interfund receivables/payables include loans for energy efficiency programs of approximately \$9.8 million. There

is also a \$561.9 million receivable for Texas A&M System from the University of Texas System from permanent university funds. The earnings will be used for bond payments. Significant transfers include a \$999.4 million transfer from lottery earnings to the foundation school fund for educational programs and a \$716.5 million transfer from the permanent school fund to the available school fund. There was also a \$2.2 billion transfer to the state highway fund from the general revenue fund. The detail of interfund activity and transactions by fund type and category as of Aug. 31, 2009, is shown in the following tables.

## Interfund Receivables/Payables per the Fund Statements

(Amounts in Thousands)

Fund Type	Current		Noncurrent		Total	
	Interfund Receivables	Interfund Payables	Interfund Receivables	Interfund Payables	Interfund Receivables	Interfund Payables
<b>INTERFUND RECEIVABLES/PAYABLES WITHIN THE PRIMARY GOVERNMENT</b>						
Governmental Funds						
General Fund	\$ 2,934	\$ 153	\$ 9,767	\$	\$ 12,701	\$ 153
State Highway Fund		29				29
Nonmajor Governmental Funds		407		4,921		5,328
	<u>2,934</u>	<u>589</u>	<u>9,767</u>	<u>4,921</u>	<u>12,701</u>	<u>5,510</u>
Proprietary Funds						
Colleges and Universities	15,210	17,823	561,895	569,826	577,105	587,649
Texas Water Development Board Fund	115		3,085		3,200	
Nonmajor Enterprise Funds	153				153	
	<u>15,478</u>	<u>17,823</u>	<u>564,980</u>	<u>569,826</u>	<u>580,458</u>	<u>587,649</u>
Total Interfund Receivables/Payables						
Within the Primary Government	<u>\$ 18,412</u>	<u>\$ 18,412</u>	<u>\$ 574,747</u>	<u>\$ 574,747</u>	<u>\$ 593,159</u>	<u>\$ 593,159</u>

## Due From/Due To per the Fund Statements

(Amounts in Thousands)

Fund Type	Due From			Due To		
	Other Funds	Primary Government	Component Unit	Other Funds	Primary Government	Component Unit
<b>DUE FROM/DUE TO WITHIN THE PRIMARY GOVERNMENT</b>						
Governmental Funds						
General Fund	\$ 43,251	\$	\$	\$ 1,234,228	\$	\$ 426
State Highway Fund	222,283			4,951		
Permanent School Fund	122			395		
Nonmajor Governmental Funds	83,548			27,829		
	<u>349,204</u>	<u>0</u>	<u>0</u>	<u>1,267,403</u>	<u>0</u>	<u>426</u>
Proprietary Funds						
Colleges and Universities	844,529		45	17,211		
Texas Water Development Board Funds				2,595		
Texas Department of Transportation Turnpike Authority	1,793			1,879		
Nonmajor Enterprise Funds	28,320			34,939		
Internal Service Fund	16,679			89,762		
	<u>891,321</u>	<u>0</u>	<u>45</u>	<u>146,386</u>	<u>0</u>	<u>0</u>
Fiduciary Funds						
Pension and Other Employee Benefit Trust Funds	199,399			24,625		
Private-Purpose Trust Funds				17		
Agency Funds	167			1,660		
	<u>199,566</u>	<u>0</u>	<u>0</u>	<u>26,302</u>	<u>0</u>	<u>0</u>
Total Due From/Due To Within the Primary Government	<u>\$ 1,440,091</u>	<u>\$ 0</u>	<u>\$ 45</u>	<u>\$ 1,440,091</u>	<u>\$ 0</u>	<u>\$ 426</u>
<b>DUE FROM/DUE TO OUTSIDE THE PRIMARY GOVERNMENT</b>						
Discretely Presented Component Units	\$	\$ 426	\$	\$	\$ 45	\$
Total Due From/Due To Outside the Primary Government	<u>\$ 0</u>	<u>\$ 426</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 45</u>	<u>\$ 0</u>
<b>TOTAL DUE FROM/DUE TO</b>			<u>\$ 1,440,562</u>			<u>\$ 1,440,562</u>

## Internal Balances per the Government-wide Financial Statements

(Amounts in Thousands)

	Governmental Activities	Business-Type Activities	Total
<b>NONCURRENT ASSETS</b>			
Internal Balances–Receivables	\$ 4,845	\$ (4,845)	\$ 0
<b>CURRENT LIABILITIES</b>			
Internal Balances–Payables	\$ 815,672	\$ (815,672)	\$ 0

## Transfers In/Out per the Fund Statements

(Amounts in Thousands)

<b>Fund Type</b>	<b>Transfers In Other Funds</b>	<b>Transfers Out Other Funds</b>
<b>Governmental Funds</b>		
General Fund	\$ 4,147,551	\$ 9,311,339
State Highway Fund	2,875,959	433,462
Permanent School Fund		716,534
Nonmajor Governmental Funds	2,713,445	3,571,625
	<u>9,736,955</u>	<u>14,032,960</u>
<b>Proprietary Funds</b>		
Colleges and Universities	6,113,242	767,672
Texas Water Development Board Funds	3,837	13,396
Texas Department of Transportation Turnpike Authority	19,317	
Nonmajor Enterprise Funds	13,634	1,100,887
	<u>6,150,030</u>	<u>1,881,955</u>
<b>Fiduciary Funds</b>		
Pension and Other Employee Benefit Trust Funds	129,026	100,855
Private-Purpose Trust Funds	30	271
	<u>129,056</u>	<u>101,126</u>
<b>Total Transfers In/Out</b>	<u><u>\$ 16,016,041</u></u>	<u><u>\$ 16,016,041</u></u>

## Transfers In/Out per the Government-wide Financial Statements

(Amounts in Thousands)

<b>Fund Category</b>	<b>Other Funds</b>
Governmental Activities	\$ (4,268,014)
Business-Type Activities	\$ 4,268,014



# Note 13

## Fund Balances/Net Assets

A summary of the nature and purposes of governmental fund balances is shown in the table below by fund type at Aug. 31, 2009.

The classification of unreserved undesignated or unreserved designated fund balances for governmental funds is based on the function of the operation of the agencies

within the funds. The fund balances of oversight agencies are classified as designated for general government.

The government-wide, proprietary and fiduciary restrictions are listed on the face of their statements of net assets. The government-wide statement of net assets reports \$51.4 billion of restricted net assets for the primary government, of which \$38.5 billion is restricted by enabling legislation.

## Governmental Fund Balances – Reserved, Unreserved/Designated, Unreserved/Undesignated

(Amounts in Thousands)

### MAJOR FUNDS

<b>General Fund – Reserved:</b>	
Encumbrances	\$ 2,375,738
Inventories	197,631
Imprest Accounts	3,848
Loans and Contracts (Noncurrent)	272,358
Interfund Receivables (Noncurrent)	9,767
Tax Receivables (Noncurrent)	346,919
Health and Human Services	173,776
	<u>\$ 3,380,037</u>
<b>General Fund – Unreserved</b>	
Undesignated:	<u>\$ 5,586,375</u>
<b>State Highway Fund – Reserved:</b>	
Encumbrances	\$ 213,346
Inventories	117,620
Imprest Accounts	568
Loans and Contracts (Noncurrent)	255,405
	<u>\$ 586,939</u>
<b>State Highway Fund – Unreserved:</b>	
Undesignated:	
General Government	\$ 1,575
Transportation	(397,457)
Public Safety and Corrections	(51,617)
	<u>\$ (447,499)</u>
<b>Permanent School Fund – Reserved:</b>	
Encumbrances	\$ 1,476
Loans and Contracts (Noncurrent)	647
Public School Support	22,595,393
	<u>\$22,597,516</u>

### NONMAJOR FUNDS

<b>Special Revenue Funds – Reserved:</b>	
Encumbrances	\$ 48,407
Inventories	362
Imprest Accounts	10
Loans and Contracts (Noncurrent)	1,170,072
	<u>\$ 1,218,851</u>
<b>Special Revenue Funds – Unreserved:</b>	
Designated:	
General Government	\$ 3,123,232
Regulatory Services	523,148
Health and Human Services	12,136
Natural Resources and Recreation	230,031
Education	353,828
Transportation	1,556,909
Public Safety and Corrections	4,730
Employee Benefits	71
	<u>\$ 5,804,085</u>
Undesignated:	
Education	\$ (33,178)
Employee Benefits	(1)
	<u>\$ (33,179)</u>
<b>Debt Service Funds – Reserved:</b>	
Debt Service	<u>\$ 220,802</u>

Concluded on the following page

## Governmental Fund Balances – Reserved, Unreserved/Designated, Unreserved/Undesignated (concluded)

(Amounts in Thousands)

### NONMAJOR FUNDS (continued)

Capital Projects Funds – Reserved:	
Encumbrances	\$ 216,299
Inventories	82
Capital Projects	229,565
	<u>\$ 445,946</u>
Capital Projects Funds – Unreserved:	
Undesignated:	
General Government	\$ (16,304)
Health and Human Services	(59,146)
Natural Resources and Recreation	19,671
Education	(26,223)
Transportation	8,985
Public Safety and Corrections	(38,217)
	<u>\$ (111,234)</u>

### NONMAJOR FUNDS (concluded)

Permanent Funds – Reserved:	
Encumbrances	\$ 4
Education	515,920
	<u>\$ 515,924</u>
Permanent Funds – Unreserved:	
Designated:	
Permanent Health Fund	<u>\$ 468,265</u>
Undesignated:	
General Government	\$ 8,687
Education	9
	<u>\$ 8,696</u>
<b>ALL GOVERNMENTAL FUNDS</b>	
Reserved	\$ 28,966,015
Unreserved/Designated	6,272,350
Unreserved/Undesignated	5,003,159
Total Fund Balances – Governmental Funds	<u>\$ 40,241,524</u>





# Note 14

## Adjustments to Fund Balances/ Net Assets

During fiscal 2009 certain accounting changes and adjustments were made that required the restatement of fund balances or net assets as shown below and discussed on the following page.

### Restatements to Fund Balances/Net Assets

(Amounts in Thousands)

	September 1, 2008, As Previously Reported	Restatements	September 1, 2008, As Restated
<b>GOVERNMENTAL FUNDS AND GOVERNMENT-WIDE ACTIVITIES</b>			
Major Funds:			
General Fund	\$ 10,655,166	\$ 192,534	\$ 10,847,700
State Highway Fund	778,471		778,471
Permanent School Fund	25,227,185	197,208	25,424,393
Total Major Funds	<u>36,660,822</u>	<u>389,742</u>	<u>37,050,564</u>
Nonmajor Funds:			
Special Revenue Funds	5,824,223	(9,884)	5,814,339
Debt Service Funds	189,203		189,203
Capital Project Funds	190,623	54,535	245,158
Permanent Funds	1,140,210		1,140,210
Total Nonmajor Funds	<u>7,344,259</u>	<u>44,651</u>	<u>7,388,910</u>
Total Governmental Funds	<u>44,005,081</u>	<u>434,393</u>	<u>44,439,474</u>
Governmental Activities:			
Capital Assets Net of Accumulated Depreciation	67,326,888	(200,082)	67,126,806
Long-Term Liabilities	(13,481,464)	(364,605)	(13,846,069)
Other Adjustments	2,436,174		2,436,174
Internal Service Fund	384,509		384,509
Total Governmental Activities	<u>56,666,107</u>	<u>(564,687)</u>	<u>56,101,420</u>
Total Governmental Funds and Government-wide Activities	<u>100,671,188</u>	<u>(130,294)</u>	<u>100,540,894</u>
<b>PROPRIETARY FUNDS</b>			
Major Funds:			
Colleges and Universities	36,521,640	(1,260,344)	35,261,296
Texas Water Development Board Funds	2,340,441		2,340,441
Texas Department of Transportation Turnpike Authority	757,435	1,188	758,623
Nonmajor Enterprise Funds	<u>2,532,792</u>	<u>(9,553)</u>	<u>2,523,239</u>
Total Proprietary Funds	<u>42,152,308</u>	<u>(1,268,709)</u>	<u>40,883,599</u>
<b>FIDUCIARY FUNDS</b>			
Pension and Other Employee Benefit Trust Funds	127,696,505		127,696,505
External Investment Trust Funds	17,375,082		17,375,082
Private-Purpose Trust Funds	3,046,704	361	3,047,065
Total Fiduciary Funds	<u>148,118,291</u>	<u>361</u>	<u>148,118,652</u>
Total Primary Government	<u>290,941,787</u>	<u>(1,398,642)</u>	<u>289,543,145</u>
Discretely Presented Component Units	<u>959,017</u>	<u>13,279</u>	<u>972,296</u>
Total Reporting Entity	<u>\$ 291,900,804</u>	<u>\$ (1,385,363)</u>	<u>\$ 290,515,441</u>

## Restatements by Activity

(Amounts in Thousands)

Restatements	Governmental Activities	Business-Type Activities	Fiduciary Activities	Component Unit	Total Restatements
A.	\$ 109,246	\$ (27,228)	\$ 361	\$ 12,435	\$ 94,814
B.	(200,082)	(28,982)		844	(228,220)
C.	128,660	(1,212,482)			(1,083,822)
D.	(365,326)	(17)			(365,343)
E.	197,208				197,208
Total Restatements	<u>\$ (130,294)</u>	<u>\$ (1,268,709)</u>	<u>\$ 361</u>	<u>\$ 13,279</u>	<u>\$ (1,385,363)</u>

- A. These are miscellaneous restatements and other changes necessary to correct accounting errors in the prior period that resulted in the over or understatement of assets and/or liabilities.
- B. This restatement is for adjusting capital assets and accumulated depreciation.
- C. These restatements recognize changes in the application of accounting principles to improve consistency within the financial reporting entity.
- D. This restatement is due to the implementation of GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. This statement establishes standards for accounting and financial reporting for pollution remediation obligations. Items covered in the statement include obligations to clean up spills of hazardous wastes or hazardous substances and obligations to remove contamination such as asbestos. Pollution remediation obligations do not include pollution prevention or control obligations with respect to current operations.
- E. This restatement is due to the implementation of GASB Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*. This statement establishes consistent standards for the reporting of land and other real estate held as investments by

essentially similar entities. It requires endowments to report their land and other real estate investments at fair value. Governments are also required to report the changes in fair value as investment income.



## Note 15

### Contingent Liabilities

The state has been named as a defendant in routine legal proceedings, which normally occur in governmental operations. The recurring pattern of such litigation is not likely to have a materially adverse effect on the state's revenues or expenditures. Potential claims have been classified into the following categories to facilitate disclosure.

#### Protested Tax Payments

As of Aug. 31, 2009, the state held protested tax payments of \$116.4 million, the majority of which were held by the Texas Comptroller of Public Accounts. The taxes included state sales and use tax, franchise tax, insurance premium and maintenance taxes, surtaxes and various other fees under protest. In addition, plaintiffs have filed lawsuits seeking refunds for franchise, sales and use, insurance, motor vehicle sales and oil and gas production taxes totaling \$727.2 million. Although the outcome of these cases cannot presently be determined, adverse rulings in some of them could result in significant additional refunds.

## Unpaid Claims and Lawsuits

A variety of cases with claims totaling \$220.6 million have been filed that may affect the state. While the outcome of these cases cannot be determined, adverse rulings could result in additional liabilities. Included are a number of lawsuits and claims that may be significant to individual state agencies. The Texas Department of Transportation faces a potential liability of \$84.9 million from litigation and contractual claims.

## Outstanding Loan Commitments

The state makes loan commitments to political subdivisions for financing purposes to be provided from remaining current bond proceeds, future bond proceeds and federal drawdowns.

The Texas Water Development Board has loan commitments totaling \$1.5 billion as of Aug. 31, 2009.

## Federal Assistance

The state receives federal financial assistance that is subject to review or audit by federal grantor agencies. Entitlement to this assistance is generally conditional upon compliance with the terms and conditions of grant agreements and applicable federal regulations, including the expenditure of assistance for allowable purposes. Any disallowance as a result of the audits may become a liability of the state.

The Texas Department of Aging and Disability Services has potential federal funding deferrals totaling \$52.5 million as of Aug. 31, 2009.

The Texas Health and Human Services Commission Office of Inspector General and the Office of the Attorney General investigate allegations of overpayments to Medicaid providers. Until investigations are completed, the total amount of overpayments to providers is potentially subject to recovery (amounts associated with the “open case list”) and may represent a corresponding potential liability for the federal share of these payments - estimated to represent 60 to 65 percent of that total.

An actual liability is realized only after (a) a completed investigation substantiates an overpayment and (b) the provider is notified of the results and given an opportunity

to submit rebuttal or claims for offsets. The percent of total dollars on the open case list that are ultimately confirmed as overpayments cannot be reliably predicted. The state estimates the amounts that may become payable to the federal government will be immaterial to its overall financial condition.

## Arbitrage

Rebatable arbitrage is defined by Internal Revenue Code, Section 148, as earnings on investments purchased with the gross proceeds of a bond issue in excess of the amount that would have been earned if the investment were invested at a yield equal to the yield on the bond issue. The rebatable arbitrage must be paid to the federal government. State agencies and universities responsible for investments from bond proceeds carefully monitor their investments to restrict earnings to a yield less than the bond issue and, therefore, limit any state arbitrage liability. The state estimates that rebatable arbitrage liability, if any, will be immaterial to its overall financial condition.

## Guaranteed Debt

At Aug. 31, 2009, \$50 billion in debt had been guaranteed by the permanent school fund for 2,531 outstanding bond issues in 781 school districts in the state. Under state statute, payments by the permanent school fund on such guarantees are recoverable from the state of Texas. The \$50 billion represents principal amount and does not reflect any subsequent accretions in value for compound interest bonds (zero coupon securities). The amount also excludes bonds that have been refunded and released from the Bond Guarantee Program.

## Federal Default Fee Commitment

The Texas Guaranteed Student Loan Corporation, a discrete component unit of the state of Texas, has committed to pay on behalf of borrowers the Federal Default Fee required for each loan it guarantees through June 2010. Based on current volume, the commitment could approach \$58 million.



## Note 16

### Subsequent Events

#### Primary Government

##### Bonds and Commercial Paper Issued/Refunded/

##### Other Financing

State agencies and universities have issued \$1.2 billion in new bonds and commercial paper and \$349 million in refunding bonds since Aug. 31, 2009. This routine activity finances state facilities, housing assistance programs, educational loans and refunds outstanding debt.

The Texas Public Finance Authority (TPFA) issued \$9.1 million of Cancer Prevention Research Institute of Texas (CPRIT) Series A General Obligation Commercial Paper Notes and \$3.6 million of CPRIT Series B General Obligation Commercial Paper Notes on Sept. 9, 2009. TPFA issued \$20 million of General Obligation Commercial Paper Notes, Series 2008 on Sept. 17, 2009. TPFA issued \$3.2 million, \$6.9 million and \$11.7 million of General Obligation Commercial Paper Notes, Series 2002A on Oct. 20, 2009; Oct. 23, 2009; and Nov. 13, 2009, respectively. TPFA issued Revenue Commercial Paper Notes, Series 2003 in the amount of \$2 million on Dec. 1, 2009, to fund the Health and Human Services Commission Texas Integrated Eligibility Redesign System project. On Dec. 3, 2009, TPFA issued \$10.1 million of General Obligation Commercial Paper Notes, Series 2002A and \$50.7 million of General Obligation Commercial Paper Notes, Series 2008 on Dec. 3, 2009. The general obligation commercial paper debt will support various projects at the Texas Facilities Commission and Texas Department of Criminal Justice. On Jan. 25, 2010, TPFA issued \$24 million of General Obligation Commercial Paper Notes, Series 2002B to provide financial assistance for colonia access roadway projects to serve border colonias.

The Texas General Land Office (GLO) issued its \$50 million State of Texas Veterans Housing Assistance Program, Fund II Series 2009B Bonds on Sept. 3, 2009. On Nov. 3, 2009, voters of the state approved a constitutional amendment that reauthorizes all previously authored general obligation bonding authority in the veterans housing

assistance fund, the veterans housing assistance fund II and the veterans land fund. GLO issued \$82.8 million state of Texas Veterans Housing Assistance Program, Fund II Series 2009C Taxable Refunding Bonds on Nov. 18, 2009. The proceeds of the bonds will be used to refund the \$17 million State of Texas Veterans Housing Assistance Program, Fund II Series 1999A-1 Taxable Bonds and the \$65.8 million State of Texas Veterans Housing Assistance Program, Fund II Series 1999B Bonds.

The Texas Department of Housing and Community Affairs issued \$300 million of Residential Mortgage Revenue Bonds, Series 2009C on Dec. 23, 2009, to fund the purchase of mortgaged-backed securities, pass through certificates guaranteed for timely payment of principal and interest by either Government National Mortgage Association (Ginnie Mae), Freddie Mac or Fannie Mae that represent beneficial ownership of pools of mortgages.

The Texas Department of Agriculture refinanced \$9 million in Series A outstanding commercial paper notes that had matured on Oct. 22, 2009. The commercial paper notes mature 90 days from the date of issuance with a discount of \$6.8 thousand at an interest rate of 0.35 percent.

The Texas Water Development Board issued \$101.4 million in Water Financial Assistance Bonds, Series 2009E to fund the water infrastructure fund and \$24.5 million in Water Financial Assistance Bonds, Series 2009F to fund programs in economically distressed areas on Dec. 15, 2009.

The Texas State Technical College System issued Revenue System Financial Bonds, Series 2009 in the amount of \$31.6 million on Nov. 15, 2009. The funds will be used to acquire, purchase, construct, improve, renovate, enlarge or equip property, buildings, structures, facilities, roads or related infrastructure at Texas State Technical College campuses, and pay the costs of issuance of the bonds.

The Texas Woman's University issued Revenue Financing System Bonds, Series 2009A in the amount of \$15 million on Dec. 30, 2009, to fund construction of a new student fitness center.

The University of North Texas System issued Revenue Financing System Bonds, Series 2009A in the amount of \$159.3 million on Nov. 15, 2009, to fund multiple con-

struction projects. Revenue Financing System Refunding Bonds, Series 2009B were issued for \$15.8 million on Nov. 15, 2009, to replace older issues.

The Texas A&M University System issued Revenue Financing System Bonds, Series 2009 in the amount of \$375 million on Nov. 10, 2009, to acquire, purchase, construct, improve and equip various facilities within the System.

The University of Texas System Board of Regents issued \$250 million in Permanent University Fund (PUF) Taxable Bonds, Series 2009A on Sept. 17, 2009, to refund \$250 million of outstanding PUF Taxable Commercial Paper Notes, Series B.

### Other Subsequent Events

The GLO received a settlement of \$2.2 million from British Petroleum (BP) on Sept. 30, 2009. The BP settlement was determined after the completion of a field audit, which discovered an estimated \$5.3 million of underpaid royalties.

The Texas Workforce Commission (TWC) transferred \$104.8 million of taxes to the unemployment trust fund account in September 2009. The taxes were originally deposited to the employment training investment act holding fund. Texas Labor Code, Sec. 204.123, defines a statutory floor for the unemployment trust fund of 1 percent of total taxable wages for the four quarters ending June 30, 2009. The transfer was required because the unemployment trust fund balance was below that floor. TWC has taken on an additional \$1 billion of long-term debt since Aug. 31, 2009. This increase is the result of borrowing money from the federal government to help pay unemployment insurance benefits. The amount of the loan as of Jan. 11, 2010, was \$1.5 billion. The loan increases/decreases each day depending on the amount of unemployment benefits paid out and tax revenue received.

House Bill 2039 passed during the 81st Legislature, Regular Session, gave the Texas Department of Aging and Disability Services the authority to transfer real property to community mental health and mental retardation centers. A total of 36 properties with a value of \$8.2 million have been transferred.

The Texas Department of Transportation (TxDOT) is a party to three pay-variable, receive-variable Constant Maturity Swaps associated with the State of Texas General Obligation Mobility Fund Series 2006A fixed rate bonds. In December 2009, the exchange of basis payments on the \$400 million notional amount were suspended for a period of approximately three years. For the three year period this exchange of payments will cease and for this time frame TxDOT will receive the fixed monthly annuity as consideration for the suspension. The swaps will continue to be outstanding obligations that have value, as indicated through the periodic mark-to-market valuations. At the end of the three year suspension period, the exchange of payment terms for the three transactions will revert back to the identical provisions originally entered into.

TxDOT paid a settlement of \$20.2 million on Nov. 19, 2009, related to the refunding of fees paid for the purchase of permanent handicap placards. Additional attorney fees of \$3.8 million will be paid in fiscal 2010.

### Component Unit

Texas State Affordable Housing Corporation issued \$73.6 million in single-family mortgage revenue bonds, Series 2009 on Dec. 23, 2009. The New Issue Bond Program was created to jump start the issuance of single family mortgage revenue bonds by housing finance agencies.



## Note 17

### Risk Management

It is the policy of the state and its agencies to periodically assess the proper combination of commercial insurance and self-insurance to cover the risk of losses to which it may be exposed. The state is not involved in any risk pools with other governmental entities.

Liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported.

For workers' compensation and unemployment compensation claims, the state is generally self-insured and

funds such liabilities on a pay-as-you-go basis. The state assumes substantially all risks associated with tort claims and liability claims against the state or its agencies due to conditions of property, vehicles, aircraft or watercraft.

The Texas Employees Group Benefits Program (GBP) provides health, life, accidental death and dismemberment (AD&D), disability and dental insurance coverage to state and higher education employees, retirees and their dependents. Coverage is provided through a combination of insurance contracts, a self-funded health plan, a self-funded dental indemnity plan, health maintenance organization (HMO) contracts and dental health maintenance organization (DHMO) contracts. Effective Sept. 1, 1992, the Employees Retirement System of Texas (ERS) implemented a self-funded managed care health plan, HealthSelect of Texas. The managed care arrangement includes provider fee negotiations and utilization management. HealthSelect is administered by Blue Cross and Blue Shield of Texas Inc.

The administrative contract involves no transfer of risk to the administrator. The state's group insurance fund retains all risk under HealthSelect. The GBP also includes HMOs to provide health care services in lieu of coverage under HealthSelect. There is a full transfer of risk to the HMOs. The state retains no risk beyond the payment of premiums. The life, AD&D and disability insurance coverages are administered by Group Life and Health (the carrier), a division of Fort Dearborn Life Insurance Company. The carrier, not the fund, is liable in the event claims exceed the claims portion of premium. The AD&D insurance is fully insured. ERS offers two dental plans, a dental health maintenance organization (DHMO) administered by Aetna Dental Inc., and a dental indemnity plan administered by the Government Employees Hospital Association (GEHA). The DHMO is fully insured with all risk transferred to Aetna Dental Inc. The dental indemnity plan is self-funded by ERS with all risk retained by the group insurance fund.

The 77th Texas Legislature enacted the Texas School Employees Uniform Group Health Coverage Act, establishing a statewide health coverage program for public school employees and their dependents. The Teacher Retirement System of Texas administers this program. Enrollment

commenced in September 2002. The plan includes employees of most small to mid-size districts, charter schools, education service centers and certain other employers. The risk associated with this plan is retained by the plan's participants, and no risk is transferred to the plan's administrators or to the state.

A number of state universities have self-insurance plans providing various coverages in the areas of workers' compensation, unemployment compensation, employee health and medical malpractice on a funded or pay-as-you-go basis. Liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Estimates of liabilities for incurred (both reported and unreported) but unpaid claims are actuarially determined based on estimates of the ultimate cost of settling claims, using past experience adjusted for current trends and any other factors that would modify past experience. There have been no significant reductions in insurance coverage in the past year, and losses did not exceed funding arrangements during the past three years.

The following table presents the changes in claims liability reported in various balance sheet/statement of net assets liability accounts for the general fund government-wide governmental activities, enterprise funds, internal service fund and colleges and universities during fiscal years ending Aug. 31, 2008, and Aug. 31, 2009. Claims and Judgment amounts presented in Note 5 (Long-Term Liabilities) are also included in the table.

### Changes in Claims Liability Balances

(Amounts in Thousands)

	Beginning Balance	Increases	Decreases	Ending* Balance
2009	\$ 717,060	\$ 2,233,247	\$ 2,213,241	\$ 737,066
2008	\$ 717,883	\$ 1,982,250	\$ 1,983,073	\$ 717,060

\* The ending balance includes both short-term and long-term claims. Long-term claims are reported as claims and judgments (current and noncurrent liabilities), which are included in Note 5 (long-term liabilities). Short-term claims payable, the majority of which relate to claims filed for the state's Group Benefits Program, are included as accounts payable in the statement of net assets and are not included in Note 5.





## Note 18

### Contested Taxes

Taxpayers may petition for a formal hearing before an independent administrative law judge if they wish to challenge a tax liability assessed by the state. If the request for a determination hearing is received within a specified time, the taxpayer does not have to pay the tax until a final decision is reached. Collectability of these assessments is dependent upon the decisions of administrative law judges. These assessments are not recognized as tax revenue until the administrative hearing is final. Therefore, these amounts are not included in the receivables reported in the financial statements. As of Aug. 31, 2009, the redetermination hearings process had an estimated amount of \$732 million.



## Note 19

### Component Units and Related Organizations

Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. Component units can also be other organizations for which the nature and significance of their relationship with a primary government is such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. In addition, component units can be organizations that raise and hold economic resources for the direct benefit of a government unit. Because of the closeness of their relationships with the primary government, some component units are blended as though they are part of the primary government. Most component units, however, are discretely presented. None of the component units for the state of Texas meet the criteria for major component unit presentation and those presented are for information purposes of interested parties. The component units are reported for the year ended Aug. 31, 2009, unless indicated otherwise.

As the result of analysis conducted during fiscal 2009, the Texas Prepaid Higher Education Tuition Scholarship Foundation Inc. previously reported as a discrete compo-

nent unit, was reclassified as a nonmajor blended component unit. This decision was based on the Foundation serving entirely the primary government as a direct-support organization of the prepaid tuition program.

#### Blended Component Units

The state is financially accountable for the following material blended component units. These component units are reported as if they are part of the primary government because they provide substantially all of their services directly to the state. The component units' financial data is blended in the appropriate funds within the financial statements. There are no other material blended component units of the state.

**Employees Retirement System of Texas (ERS)** is a legal entity established by the Legislature to administer benefits for officers and employees of the state. ERS is governed by a six member board of trustees. The governor, with the advice and consent of the Senate, appoints three of the six members of the board of trustees. The state of Texas has the ability to impose its will upon ERS through its budget approval powers. Separate financial statements may be obtained by contacting ERS at P.O. Box 13207, Austin, Texas 78711.

**Texas Treasury Safekeeping Trust Company** (Trust Company) is a legally separate entity established by the Legislature. The Comptroller of Public Accounts is the single shareholder of the Trust Company and is charged with managing the Trust Company. The Trust Company is authorized to manage, disburse, transfer, safekeep and invest funds and securities provided by statute or belonging to state and local entities and gives the Comptroller direct access to services provided by the Federal Reserve System. Separate financial statements may be obtained by contacting the Trust Company at 208 E. 10th St., 4th Floor, Austin, Texas, 78701.

#### Discretely Presented Component Units

The state is financially accountable for the following legally separate entities (component units); however, the units do not provide services entirely or almost entirely to the state. The component units' financial data is discretely



presented in the component unit column of the state's financial statements.

**Teacher Retirement System of Texas (TRS)** is a legally separate entity established by the Legislature to administer retirement and disability annuities to employees and beneficiaries of public school systems, colleges and universities of Texas. TRS is governed by a nine member board of trustees, three of whom are direct appointments of the governor. The remaining trustees are appointed by the governor from lists prepared by various constituent groups. The state of Texas has the ability to impose its will on TRS through its budget approval powers. Separate financial statements may be obtained by contacting TRS at 1000 Red River Street, Austin, Texas 78701.

**State Bar of Texas** is a public corporation and an administrative agency of the judicial branch of government. The purpose of the State Bar is to ensure that public responsibilities of the legal profession are effectively discharged. The state of Texas has the ability to impose its will upon the State Bar through its budget approval powers. The State Bar is reported for the year ended May 31, 2009. Separate financial statements may be obtained by contacting the State Bar at 1414 Colorado St., Austin, Texas 78701.

**Texas Agricultural Finance Authority (TAFA)** is a legally separate entity within the Texas Department of Agriculture (TDA) and is financially accountable to the state. The governor, with the advice and consent of the Senate, appoints seven of the nine members of the board of directors. The commissioner of TDA administers TAFA with the assistance of the board. TAFA was created to provide financial assistance for the expansion, development and diversification of agricultural businesses. TAFA primarily benefits the citizens of Texas. If there are insufficient funds to pay TAFA's bond obligations, the primary government shall transfer money from the state treasury to TAFA in an amount sufficient to pay those obligations. Separate financial statements may be obtained by contacting TDA at P.O. Box 12847, Austin, Texas 78711-2847.

**Texas On-Site Wastewater Treatment Research Council** (Council) awards competitive grants and contracts to support applied research, demonstration projects and

information transfer regarding on-site wastewater treatment. The Council is not an advisory council and does not regulate the on-site wastewater industry in the state of Texas. The Council is a component unit due to its fiscal dependency on the Texas Commission on Environmental Quality (TCEQ). The Council's fiscal operations (revenues, budget, expenditures and administration) are maintained by TCEQ. In order to emphasize that the Council is a legally separate entity, its financial information is presented in a separate column in the TCEQ combined financial statements.

**Texas Appraiser Licensing and Certification Board (TALCB)** was statutorily created as an independent subdivision of the Texas Real Estate Commission (TREC) and is a legally separate entity from the primary government. The governor appoints the members of the board. TREC provides administrative support to TALCB, but has no authority to approve or modify its budget or to set its fees. Although TALCB is not fiscally dependent on TREC, to exclude it would result in presentation of incomplete financial statements. TALCB serves the real estate community in Texas. Financial statements can be obtained by contacting TREC at P.O. Box 12188, Austin, Texas 78711-2188.

**Texas Guaranteed Student Loan Corporation (TGSLC)** is a public nonprofit corporation that guarantees loans made to eligible students under the federal guaranteed student loan program. The state of Texas is financially accountable for TGSLC through board appointment and imposition of will. All members of TGSLC's board are appointed by the governor with the advice and consent of the Senate. TGSLC's liabilities are not debts of the state. TGSLC received a one-time appropriation of \$1.5 million to fund initial startup operations. TGSLC is reported for the year ended Sept. 30, 2009. Separate financial statements may be obtained by contacting TGSLC at P.O. Box 201725, Austin, Texas 78720-1725.

**Texas Boll Weevil Eradication Foundation Inc.** (Foundation) was created by Senate Bill 30, 73rd Legislature, 1993 (now codified at Texas Agriculture Code, Chapter 74, Subchapter D). The Foundation establishes and implements a boll weevil eradication program for Texas. It is a legally separate entity, fiscally dependent on the TDA

and governed by sixteen board members. TDA's commissioner appoints eight of the board members. TDA approves the Foundation's budget, assessment fees and debt. The Foundation is reported for the year ended Dec. 31, 2008. Separate financial statements may be obtained by contacting TDA at P.O. Box 12847, Austin, Texas 78711-2847.

**Texas Water Resources Finance Authority** (Authority) was created by the Legislature as a governmental entity and body politic and corporate for the purpose of increasing the availability of financing for water-related projects. A board of directors, composed of the six members of the Texas Water Development Board (TWDB), governs the Authority. The members of the TWDB are appointed by the governor. TWDB, through a sales and servicing agreement, wholly manages the Authority's operations. Prior to any bonds being issued by the Authority, the issuance must be reviewed by the Bond Review Board, which is composed of the governor, lieutenant governor, speaker of the house of representatives and the Comptroller of Public Accounts. Financial statements may be obtained by contacting TWDB at P.O. Box 13231, Austin, Texas 78711-3231.

**Texas Small Business Industrial Development Corporation** (TSBIDC) was chartered in 1983 under the Development Corporation Act of 1979 to promote economic development in the state of Texas. The Office of the Governor is the oversight agency for TSBIDC and is its reporting entity. The board of directors is appointed by the governor, and all programs and expenditures of TSBIDC must be approved on behalf of the state by the Texas Economic Development Bank. TSBIDC's services primarily benefit the Texas citizenry. Separate financial statements may be obtained by contacting the Office of the Governor at P.O. Box 12428, Austin, Texas 78711.

**Texas Economic Development Corporation** (TED Corp), a nonprofit corporation, was created in 1991 under the provisions of the Texas NonProfit Corporation Act to assist, promote, develop and advance economic development in the state of Texas. The Office of the Governor is the oversight agency for TED Corp and is its reporting entity. The board of directors is appointed by the governor. TED Corp's services primarily benefit the Texas citizenry. Separate financial statements may be obtained by contact-

ing the Office of the Governor at P.O. Box 12428, Austin, Texas 78711.

**Texas Disaster Relief Fund** (TDRF), a nonprofit corporation, was established to help the Office of the Governor provide disaster relief. The chief of staff, director of homeland security and the chief financial officer of the Office of the Governor serve as initial directors and will change only when these positions change. The services provided by TDRF assist the Office of the Governor in responding to the needs of the citizens before, during and after a disaster in Texas. TDRF's financial statements may be obtained by contacting the Office of the Governor at P.O. Box 12428, Austin, Texas 78711.

**Surplus Lines Stamping Office of Texas** (Stamping Office) is a nonprofit corporation created by the Legislature to assist the Texas Department of Insurance (TDI) in the regulation of surplus lines insurance. TDI's commissioner appoints the board. The Stamping Office performs its functions under a plan of operation approved by order of TDI. The Stamping Office assesses each surplus lines insurance agent a stamping fee for the administrative funding of the Stamping Office. The state of Texas has the ability to impose its will upon the Stamping Office through the approval of the assessment rate that funds its operations. The Stamping Office is reported for the year ended Dec. 31, 2008. Separate financial statements may be obtained by contacting TDI at P.O. Box 160170, Austin, Texas 78716-0170.

**Texas Health Reinsurance System** reinsures risks covered under the health benefit plans of small employers' insurance carriers. TDI's commissioner appoints, supervises and controls the nine-member board. The state of Texas has the ability to impose its will through TDI commissioner approval of base reinsurance premium rates and the assessment rates against reinsured health benefit plan issuers. Financial statements may be obtained at 100 Great Meadow Rd., Suite 704, Wethersfield, Connecticut 06109.

**Texas Health Insurance Risk Pool** provides access to quality health care at a minimum cost to the public for those unable to obtain traditional health care coverage. TDI approves all rates and rate schedules before they are used. The board of directors, composed of nine members,

is appointed by TDI's commissioner. Financial statements may be obtained at 1701 Director's Blvd., Suite 120, Austin, Texas 78744.

**Texas State Affordable Housing Corporation** (TSAHC) was incorporated under the Texas NonProfit Corporation Act and is legally separate from the state. Its purpose is to serve the housing needs of low-income Texans, professional educators, firefighters and police officers who are first-time home buyers and are not afforded housing finance options through conventional lending channels. TSAHC operates under the name Texas Star Mortgage to provide single and multifamily loans to low-income Texans. Although a separate entity from the state, there is a statutory link between the state and TSAHC as it issues bonds. Because of this link, TSAHC is included in the state's CAFR as a discretely presented component unit. Separate financial statements may be obtained by contacting TSAHC at P.O. Box 12637, Austin, Texas 78711-2637.

**Representacion de TAMU en la Republica Mexicana, A.C.** (Mexico Center) is a legally separate organization established in Mexico City, Mexico to serve as a central point of contact for the support and promotion of the Texas A&M University's international education, research and outreach activities. In addition, the Mexico Center provides services outside of the University, such as to Mexican government entities. The executive management of Texas A&M University appoints the voting majority of the board of the Mexico Center. It can also remove board members at will and approve and modify the Mexico Center's budget. The Mexico Center is reported for the year ended Dec. 31, 2008. Separate financial statements may be obtained by contacting Texas A&M University at 200 Technology Way, Suite 2003, College Station, Texas 77845-3424.

**Texas Health Services Authority** (THSA) was created by House Bill 1066, 80th Session, to assist the Office of the Governor with the improvement of the Texas health care system. THSA promotes and coordinates the electronic exchange of health information throughout the state to ensure that information is available to health care providers and to improve patient safety and quality of care. The board of directors consists of 11 members and is appointed by the governor, with the advice and consent of the Sen-

ate. The state of Texas has the ability to impose its will upon THSA through the ability of the governor to order the dissolution of THSA at any time the governor declares the purposes of THSA have been fulfilled or that THSA is inoperative or abandoned. THSA's financial statements may be obtained by contacting the Office of the Governor at P.O. Box 12428, Austin, Texas 78711.

**Casa Verde Research Center, Sociedad Anonimo** (Casa Verde) is a legally separate organization established in Costa Rica to provide research opportunities for students and faculty of Texas A&M University. Casa Verde also provides services to outside organizations, such as study abroad programs to corporations and research and education opportunities for Costa Rican universities. The board of Casa Verde is appointed by executive management of Texas A&M University. The executive management can also remove board members at will and modify the budget of Casa Verde. As of Aug. 31, 2009, Casa Verde did not have any financial activity.

### Related Organizations

Related organizations are legally separate, fiscally independent entities for which the state appoints a voting majority of the board, but the state is not financially accountable for the entity.

**Life, Accident, Health and Hospital Service Insurance Guaranty Association** (Association) was created for the protection of persons against failure in the performance of contractual obligations under life, accident and health insurance policies and annuity contracts, because of the impairment or insolvency of the member insurer that issued the policies or contracts. TDI's commissioner appoints a board of directors of the Association consisting of nine members.

**Texas Title Insurance Guaranty Association** was created for the purpose of providing funds for the protection of holders of "covered claims," as defined in Article 9.48 of the Texas Insurance Code. This applies to all title insurance written by title insurance companies authorized to do business in Texas. The nine-member board of directors is appointed by TDI's commissioner.

**Texas Mutual Insurance Company** (Texas Mutual) was created by House Bill 3458. It was previously known as the Texas Workers' Compensation Insurance Fund and reported as a discretely presented component unit. Texas Mutual operates as a domestic mutual insurance company providing workers' compensation insurance in the state of Texas and also serves as the insurer of last resort. The governor, with the advice and consent of the senate, appoints Texas Mutual's board of directors.

**Midwestern State University Charitable Trust** (Trust) is a nonprofit organization with the sole purpose of educational and other activities of Midwestern State University. It is governed by a board of trustees of no less than three members. This board appoints individuals to fill vacancies on the board as they occur with the approval of the Midwestern State University board of regents, which is appointed by the governor. The Trust's board of trustees serves under the direction of the board of regents, which has the power by majority vote to appoint or remove any or all of the trustees.

**Texas Self-Insurance Group Guaranty Association** was created to provide payment of workers' compensation insurance benefits for injured employees covered by an insolvent workers' compensation self-insurance group. TDI appoints two of the six-member board of directors, and approves three other members that are selected by representatives of the certified workers' compensation self-insurance groups.

**Charter School Finance Corporation** is a nonprofit organization with the sole purpose of issuing revenue bonds for authorized open-enrollment charter schools for the acquisition, construction, repair or renovation of education facilities at those schools. The Texas Public Finance Authority appoints the board of directors in consultation with the commissioner of the Texas Education Agency.

**Texas State University System Foundation Inc.** (Foundation) is a nonprofit corporation with the purpose of providing financial support for the universities and colleges within the Texas State University System. The Foundation provides funds for student scholarships, faculty awards and for assisting the chancellor in the performance of his/her duties. The board of directors is comprised of all members

of the Texas State University System board of regents, which is appointed by the governor.

**Coastal Coordination Council** was established to adopt uniform policies and goals to guide decision-making by all entities regulating or managing natural resource use within the Texas coastal area. The majority of the board of directors is appointed by the governor.

**Texas Farm and Ranch Lands Conservation Council** was established to advise and assist the commissioner of the General Land Office with the administration of the Texas Farm and Ranch Lands Conservation Program and to select applicants to receive grants under the program. The governor appoints the members of the council.

**River Authorities** are political subdivisions that are created by Texas statute. The Texas Constitution, Article XVI, Section 59, authorizes the Legislature to create districts that conserve and develop natural resources of the state. The conservation and development of the state's natural resources includes the control, storing, preservation and distribution of its storm and flood waters, the waters of its rivers and streams, for irrigation, power and all other useful purposes; the reclamation and irrigation of its arid, semiarid and other lands needing irrigation; the reclamation of drainage of its overflowed lands and other lands needing drainage; the conservation and development of its forests, water and hydro-electric power; the navigation of its inland and coastal waters and the preservation and conservation of all such natural resources of the state. The state of Texas has voting majority for the following 16 river/water authorities:

- Angelina and Neches River Authority
- Brazos River Authority
- Central Colorado River Authority
- Guadalupe-Blanco River Authority
- Lavaca-Navidad River Authority
- Lower Colorado River Authority
- Lower Neches Valley River Authority
- Nueces River Authority
- Red River Authority
- Sabine River Authority
- San Jacinto River Authority
- Sulphur River Basin Authority

- Trinity River Authority
- Upper Colorado River Authority
- Upper Guadalupe River Authority
- Upper Neches Municipal Water Authority



## Note 20

### Deficit Fund Balances/Net Assets

#### A. Primary Government

##### *Governmental Funds*

The **State Textbook Fund**, a nonmajor special revenue fund, reported a deficit of \$33.2 million. This is the result of \$40.2 million in payments owed to textbook vendors at Aug. 31, 2009, that will be paid out of fiscal 2010 appropriations.

##### *Proprietary Funds*

The **Texas Prepaid Higher Education Tuition Board**, a nonmajor enterprise fund, reported a deficit of \$595.3 million. This deficit was caused by the impact of a lower than expected return on investments in fiscal 2009 and a change in the investment return assumptions for future years.

The **Texas Unemployment Trust Fund**, a nonmajor enterprise fund, reported a deficit of \$303.8 million. This deficit was caused by the severe economic downturn that caused state funded unemployment benefits to nearly triple from the prior year.

#### B. Discretely Presented Component Units

The **Texas Boll Weevil Eradication Foundation Inc.**, a component unit of the Texas Department of Agriculture, reported a deficit unrestricted net assets of \$12.6 million. This is a result of incurring debt during the early years of the eradication program that resulted in a decrease in unrestricted net assets on the statement of activities and an unrestricted deficit on the statement of net assets. Although this “loss” was incurred during the initial operations of the program, management expects an increase in net assets in later years to offset this loss.



## Note 21

### Tobacco Settlement

The state of Texas settled a lawsuit against certain tobacco manufacturers in 1998. The settlement included monetary and injunctive relief. The settling tobacco manufacturers agreed to remit annual payments to the state. Estimates made at the time of the agreement projected that these payments could total \$15.1 billion over the first 25 years of the agreement. The court-ordered annual payment amounts are subject to adjustments based on the tobacco companies’ domestic cigarette sales, the general consumer inflation rate, the profitability of the tobacco companies and any other court-ordered factors. A revenue accrual of \$312.2 million is based on the payment received in December 2009. Tobacco settlement revenues were \$520.1 million in fiscal 2008 and \$501.9 million in fiscal 2009. Cumulative actual tobacco settlement revenues as of fiscal 2009 were \$6.2 billion.



## Note 22

### Donor-Restricted Endowments

The state of Texas has donor-restricted endowments with net appreciation of \$1.4 billion on investments that are available for authorization for expenditure by the governing board. Details for the amounts of the net appreciation on investments and how they are reported in net assets can be found in the donor-restricted endowments table on the following page. True endowments require the principal to be maintained inviolate and in perpetuity. Term endowments allow the principal to be expended after the passage of a stated period of time and all conditions of the endowment have been met. Expendable funds are those funds that may be expended for either a stated purpose or for a general purpose as per the endowment gift terms. Nonexpendable funds are those that are required to be retained in perpetuity.

The majority of the state’s endowments are the results of donations made to higher education institutions. The Uniform Prudent Management of Institutional Funds Act,



Property Code, Chapter 163, provides general guidelines on how endowments should be maintained. An institution may appropriate for expenditures or accumulate as much as the institution determines prudent for the uses, benefits, purposes and duration of the endowment. Each institution sets the amounts and/or percentage of net appreciation on endowment investments that are authorized for expenditure in its spending plan.

## Donor-Restricted Endowments

(Amounts in Thousands)

Donor-Restricted Endowments	Amount of Net Appreciation	Reported in Net Assets
True Endowments	\$ 1,349,615	Expendable
Term Endowments	27,073	Expendable
	<u>\$ 1,376,688</u>	



## Note 23

### Extraordinary and Special Items

The state did not report extraordinary items in the current fiscal year. Extraordinary items, as defined in GASB Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*, are transactions or other events that are both unusual in nature and infrequent in occurrence.

The state did not report special items in the current fiscal year. Special items, as defined in GASB 34, are significant transactions or other events within the control of management that are either unusual in nature or infrequent in occurrence.



## Note 24

### Taxes Receivable and Tax Refunds Payable

Taxes receivable and tax refunds payable, as reported in the general fund on the balance sheet – governmental funds, are detailed by tax type as follows.

#### Taxes Receivable by Tax Type

August 31, 2009 (Amounts in Thousands)

Tax Type	Net Taxes Receivable
Sales and Use	\$ 1,255,681
Motor Vehicle and Manufactured Housing	98,255
Motor Fuels	254,121
Franchise	303,272
Oil and Natural Gas Production	433,491
Insurance Occupation	152,933
Cigarette and Tobacco	14,829
Other	156,026
Total Net Taxes Receivable	<u>\$ 2,668,608</u>
Liquidity Characteristics:	
Current Taxes Receivable	\$ 2,321,689
Noncurrent Taxes Receivable	346,919
Total Net Taxes Receivable	<u>\$ 2,668,608</u>

#### Tax Refunds Payable by Tax Type

August 31, 2009 (Amounts in Thousands)

Tax Type	Tax Refunds Payable
Franchise	\$ 550,340
Oil and Natural Gas Production	623,481
Total Tax Refunds Payable	<u>\$ 1,173,821</u>

Texas Franchise/Business Margins (Franchise) tax receivables represent balances due at Aug. 31, 2009, for business activity that occurred in calendar year 2008. The Franchise tax payments were due May 15, 2009; however, taxpayers were allowed to extend the filing date to November 2009.

Franchise taxes are considered earned when the underlying business activity occurs. There are no required estimated payments under this tax. Tax payments are due annually each May 15. The tax earned during the first eight

months of calendar year 2009 is not due until May 2010. As a result, the taxes receivable and related revenue that are earned in this eight month period are not measurable and are not accrued at fiscal year-end.



## Note 25

### Termination Benefits

#### Healthcare-Related Termination Benefits

Healthcare continuation under the Consolidated Omnibus Budget Reconciliation Act (COBRA) is provided for both voluntary and involuntary terminations. The COBRA members are eligible to remain in their eligible insurance program for 18 months or 29 months if disabled. Covered dependents are eligible to remain in the program for 36 months. The COBRA Plan administrators for the state include the Employees Retirement System of Texas, University of Texas System and Texas A&M University System.

As part of the American Recovery and Reinvestment Act (ARRA), employees involuntarily terminated between Sept. 1, 2008, and Dec. 31, 2009, are eligible for a 65 percent subsidy of COBRA premiums for up to a nine month period. The administrators of the COBRA premium assistance program recover the subsidy as a credit on their quarterly employment tax return.

The insurance carrier performs the billing and collections process for COBRA participants. The plan administrators collect 100 percent of the blended insurance premiums and a 2 percent administrative fee from each COBRA participant. Since the plan is self-insured the plan administrators are responsible for any claims or administrative costs associated with COBRA participants that exceed these payments. For fiscal 2009, the cost to the state was approximately \$19.3 million for 4,923 COBRA participants.

For the fully-insured health maintenance organization health insurance plans, the insurance carrier retains all premiums and is liable for all claims and expenses. Premium and expense information is not available for these plans.

### Non-Healthcare-Related Termination Benefits

There were no material non-healthcare-related voluntary or involuntary termination benefits accepted in fiscal 2009.



## Note 26

### Segment Information

#### Primary Government

Segments are separately identifiable activities reported as or within enterprise funds for which revenue bonds or other revenue-backed debt instruments are outstanding and for which related expenses, gains, losses, assets and liabilities can be identified. To qualify as a segment, an activity must also be subject to an external requirement to separately account for this revenue stream. The activities reported in the following financial information meet these requirements.

The State of Texas David A. Gloier State Veterans Home Program was created to provide long-term skilled nursing care for veterans, spouses of veterans and gold star parents of veterans of the state of Texas. The construction of the first four homes was funded by the issuance of revenue bonds, which require these homes' revenues, expenses, gains and losses, assets and liabilities to be separately accounted for and independently audited. The tables on the following page present the financial statements of the homes related to the revenue bonds.



## Condensed Statement of Net Assets

(Amounts in Thousands)

	Veterans Homes Revenue Bonds
<b>ASSETS</b>	
Current Restricted Assets:	
Cash and Cash Equivalents	\$ 4,713
Other Current Assets	5,242
Capital Assets, Net of Depreciation	27,245
Total Assets	<u>37,200</u>
<b>LIABILITIES</b>	
Current Liabilities	7,812
Noncurrent Liabilities	22,620
Total Liabilities	<u>30,432</u>
<b>NET ASSETS</b>	
Invested in Capital Assets, Net of Related Debt	4,250
Restricted Net Assets	2,518
Total Net Assets	<u>\$ 6,768</u>

## Condensed Statement of Cash Flows

(Amounts in Thousands)

	Veterans Homes Revenue Bonds
<b>NET CASH PROVIDED (USED) BY:</b>	
Operating Activities	\$ 3,965
Noncapital Financing Activities	(517)
Capital and Related Financing Activities	(1,857)
Investing Activities	<u>(599)</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<u>992</u>
Cash and Cash Equivalents, September 1, 2008	<u>3,721</u>
Cash and Cash Equivalents, August 31, 2009	<u>\$ 4,713</u>

## Condensed Statement of Revenues, Expenses and Changes in Net Assets

(Amounts in Thousands)

	Veterans Homes Revenue Bonds
<b>OPERATING REVENUES (EXPENSES)</b>	
Sale of Goods and Services	\$ 37,361
Other Operating Revenues	9
Depreciation and Amortization	(1,828)
Other Operating Expenses	(35,097)
Operating Income	<u>445</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>	
Other Nonoperating Revenues	113
Interest Expense	(1,457)
Nonoperating Expenses	<u>(1,344)</u>
<b>OTHER TRANSFERS – TRANSFER OUT</b>	<u>(518)</u>
Change in Net Assets	<u>(1,417)</u>
Net Assets, September 1, 2008	<u>8,185</u>
Net Assets, August 31, 2009	<u>\$ 6,768</u>



## Section Two (continued)

# Required Supplementary Information Other Than MD&A

# Budgetary Comparison Schedule

## General fund

For the Fiscal Year Ended August 31, 2009 (Amounts in Thousands)

	Budgetary Amounts		Actual Amounts	Final
	Original	Final	Budgetary Basis	to Actual Variance
<b>REVENUES</b>				
Taxes	\$ 37,026,006	\$ 36,218,871	\$ 34,670,197	\$ (1,548,674)
Federal	21,670,036	31,189,639	31,466,672	277,033
Licenses, Fees and Permits	2,478,625	2,727,962	2,023,879	(704,083)
Interest and Other Investment Income	899,696	386,586	343,907	(42,679)
Land Income	9,821	15,683	19,047	3,364
Settlement of Claims	497,049	525,927	566,630	40,703
Sales of Goods and Services	987,816	1,720,181	1,451,648	(268,533)
Other	1,673,232	2,735,701	3,139,242	403,541
Total Revenues	<u>65,242,281</u>	<u>75,520,550</u>	<u>73,681,222</u>	<u>(1,839,328)</u>
<b>EXPENDITURES</b>				
General Government	3,976,850	2,817,602	3,160,925	(343,323)
Education	20,440,278	22,826,187	24,837,399	(2,011,212)
Employee Benefits	1,049,695	1,458	1,512	(54)
Teacher Retirement Benefits	1,719,076	1,719,076	1,728,959	(9,883)
Health and Human Services	24,871,855	31,015,461	36,208,810	(5,193,349)
Public Safety and Corrections	3,852,450	5,637,988	5,112,837	525,151
Transportation	4,503	6,408	5,815	593
Natural Resources and Recreation	1,455,323	1,693,873	1,570,610	123,263
Regulatory Services	272,965	335,117	332,845	2,272
Total Expenditures	<u>57,642,995</u>	<u>66,053,170</u>	<u>72,959,712</u>	<u>(6,906,542)</u>
Excess of Revenues				
Over Expenditures	<u>7,599,286</u>	<u>9,467,380</u>	<u>721,510</u>	<u>(8,745,870)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfer In	1,576,155	1,908,744	4,147,551	2,238,807
Transfer Out	(6,833,371)	(7,416,447)	(9,311,339)	(1,894,892)
Sale of Capital Assets	10,618	7,819	11,060	3,241
Insurance Recoveries	457	3,166	3,477	311
Available Beginning Balances	15,238,574	8,500,184	11,833,799	3,333,615
Total Other Financing Sources (Uses)	<u>9,992,433</u>	<u>3,003,466</u>	<u>6,684,548</u>	<u>3,681,082</u>
Excess of Revenues and Other				
Financing Sources Over Expenditures				
and Other Financing Uses	<u>\$ 17,591,719</u>	<u>\$ 12,470,846</u>	<u>\$ 7,406,058</u>	<u>\$ (5,064,788)</u>

# Budgetary Comparison Schedule

## Major Special Revenue Fund – State Highway Fund

For the Fiscal Year Ended August 31, 2009 (Amounts in Thousands)

	Budgetary Amounts		Actual Amounts	Final
	Original	Final	Budgetary Basis	to Actual Variance
REVENUES				
Taxes	\$ 41,091	\$ 39,631	\$ 39,631	\$
Federal	3,352,373	3,239,714	2,639,487	(600,227)
Licenses, Fees and Permits	1,134,787	1,119,958	1,285,514	165,556
Interest and Other Investment Income	3,600	89,330	102,916	13,586
Land Income	3,729	4,110	14,161	10,051
Settlement of Claims	1,520	103	1,531	1,428
Sales of Goods and Services	179,882	207,063	214,343	7,280
Other	4,722	9,084	4,506	(4,578)
Total Revenues	4,721,704	4,708,993	4,302,089	(406,904)
EXPENDITURES				
General Government	10,456	12,101	11,582	519
Education	50,000	50,000	50,000	
Health and Human Services	10,000	60,000	59,944	56
Public Safety and Corrections	521,427	633,838	687,751	(53,913)
Transportation	7,445,532	8,131,629	7,025,814	1,105,815
Total Expenditures	8,037,415	8,887,568	7,835,091	1,052,477
Excess (Deficiency) of Revenues				
Over (Under) Expenditures	(3,315,711)	(4,178,575)	(3,533,002)	645,573
OTHER FINANCING SOURCES (USES)				
Transfer In	2,288,012	2,271,855	2,875,959	604,104
Transfer Out			(433,462)	(433,462)
Sale of Capital Assets	4,500	4,056	5,149	1,093
Insurance Recoveries	7,600	6,197	14,036	7,839
Available Beginning Balances	1,022,529	1,182,124	4,351,602	3,169,478
Total Other Financing Sources (Uses)	3,322,641	3,464,232	6,813,284	3,349,052
Excess of Revenues and Other Financing Sources				
Over Expenditures and Other Financing Uses	\$ 6,930	\$ (714,343)	\$ 3,280,282	\$ 3,994,625

## Note to Budgetary Comparison Schedule

The Budgetary Comparison Schedule presents comparisons of the legally adopted budget with actual data on a budgetary basis. Since accounting principles applied for purposes of developing data on a budgetary basis differ significantly from those used to present financial statements in conformity with generally accepted accounting principles (GAAP), a reconciliation of these differences is required and is presented below.

## Perspective Differences

Certain revenues and expenditures, including debt service and the disproportionate share portion of the Federal Medical Assistance program, are not budgeted by the Legislature. The activity for these programs has been excluded from the Budgetary Comparison Schedule.

The beginning cash balances are included as other financing sources in the Budgetary Comparison Schedule. The beginning fund balances are not included as financing sources on the GAAP financial statements.

### Reconciliation of Budgetary Basis to GAAP Basis

August 31, 2009 (Amounts in Thousands)

	General Fund	State Highway Fund
Excess of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses – Actual Budgetary Basis	\$ 7,406,058	\$ 3,280,282
Basis of Accounting Differences:		
Receivables and Deferred Revenues	1,070,065	218,163
Payables	1,630,383	268,410
Perspective Differences:		
Beginning Cash Balances Reported as Other Financing Sources	(11,833,799)	(4,351,602)
Other Revenues Not Budgeted	109,601	16,000
Other Expenditures Not Budgeted	(263,612)	(70,284)
Entity Differences:		
Excess of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses for Other Activities	16	
Excess of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses – GAAP Basis	<u>\$ (1,881,288)</u>	<u>\$ (639,031)</u>

The major reconciling items between the Budgetary Comparison Schedule actual and the GAAP financial statements are due to the following items.

### Basis of Accounting Differences

Revenues and expenditures are reported on the cash basis of accounting in the Budgetary Comparison Schedule but are reported on the modified accrual basis on the GAAP financial statements. Therefore, deferred revenues, receivables and payables are included as reconciling items.

## Entity Differences

Budgets are not established for sources from capital leases. These financing sources are not included in the Budgetary Comparison Schedule.

### Excess of Actual Budgetary Basis Expenditures over Final Budget

General fund - the \$353 million combined variance from general government, employee benefits and teacher retirement benefits is due to expenditures made from beginning fund balance that are included in other financing sources. The \$2.0 billion variance in education was due to a change in the timing of one

foundation school fund payment, now made at the end of the current year as opposed to being delayed to the next fiscal year. The \$5.2 billion variance in health and human services is the result of increased expenditures made from the excess of federal revenues received over estimates for agencies in this particular function. Additionally, beginning budgeted balances were available for additional spending in this fiscal year.

Major special revenue fund - state highway fund - the \$54 million variance in public safety and corrections is the result of expenditures being made from beginning cash balance in the fund that is included in other financing sources.

## Basis of Budgeting

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The state's budget is prepared on a cash basis. The Texas Constitution limits appropriation bills to two years. The Legislative Budget Board (LBB) is required by statute to adopt an estimated rate of growth for the next biennium and calculate a limit on the amount of state tax revenue, not dedicated by the Texas Constitution, that is available for spending in the next biennium. If the Legislature, by adoption of a resolution approved by a record vote of a majority of the members of each house, finds that an emergency exists and identifies the nature of the emergency, the Legislature may provide appropriations in excess of the adopted limit. The Governor's Budget Office and LBB initiate the process by submitting budget requests to the Legislature. At final passage of the Appropriations Bill by the Legislature, it is sent to the Comptroller for certification. If the Comptroller certifies that appropriated amounts are available in the affected funds, the bill is sent to the governor. If not certified, the Legislature may pass the bill with a four-fifths majority vote. The governor has the option of vetoing the total bill or specific line-item appropriations, but does not have the authority to reduce a line item of appropriation. Upon approval by the governor, the bill becomes law and is the budget authority for state agencies to spend state funds. The Comptroller is responsible for controlling, accounting and reporting expenditures in accordance with the expenditure budgets.

## Legal Level of Budgetary Control

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The Texas Constitution requires the Comptroller to submit a *Biennial Revenue Estimate* to the Legislature prior to each regular session. This document contains an itemized estimate of beginning cash balances, anticipated revenues based on laws then in effect and estimated expenditures from prior appropriations. The Texas Constitution also requires the Comptroller to submit supplementary revenue estimates at any special session of the Legislature and at other necessary times to show probable changes.

The level of legal control for the budget is established at the strategy (line item) level by agency. For example, "Highway Patrol," "Driver License and Records" and "Vehicle Inspection Program" are three of the strategies for

the Texas Department of Public Safety. The legal level of budgetary control is defined as the level at which the governing body must approve any over expenditure of appropriations or transfers of appropriated amounts. Agencies are authorized limited transfer authority between strategies, not to exceed 12.5 percent, by the General Appropriations Act. Transfers and expenditures are monitored against the original budget by the Comptroller's office to ensure the agency's authorized budget is not exceeded.

The level of legal control for all agencies is documented in the *Appropriation Summary Report*, which is available by request from the Comptroller's office. This separate document includes budget and actual data by appropriation line item for each state agency. State agencies cannot exceed approved appropriations. In certain emergency situations, the governor may authorize additional appropriations from deficiency and emergency appropriation reserves. During fiscal 2009, \$16.1 million was transferred to the Adjutant General and the Texas Department of Public Safety to assist with disaster recovery cash flow needs. Unexpended appropriations generally lapse 60 days after the fiscal year unless they are encumbered during the 60-day "lapse" period. Other appropriations referred to as "reappropriated unexpended balances" represent the continuation of a prior year's balances for completion of a program.

## Modified Approach to Reporting Infrastructure Assets

As permitted by GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, the state has adopted the modified approach for reporting its highway system. Under the modified approach, depreciation is not reported and certain preservation and maintenance costs are expensed.

The modified approach requires that the state:

- Maintain an asset management system that includes an up-to-date inventory of eligible infrastructure assets,
- Perform condition assessments of the eligible infrastructure assets and summarize the results using a measurement scale in order to document that the eligible infrastructure assets are being preserved approximately at (or above) the condition level established and disclosed by the government, and

- Estimate each year the annual amount needed to maintain and preserve the eligible infrastructure assets at the condition level established and disclosed by the government.

Although bridges are an integral part of the highway system, the state has elected to depreciate bridges. Therefore, they are not reported using the modified approach.

## Condition Assessments

The Texas Department of Transportation (TxDOT) performs yearly condition assessments through its Texas Maintenance Assessment Program (TxMAP).

Under this program, visual inspections are conducted on approximately 10 percent of the interstate system and 5 percent of the non-interstate system (national, state and farm-to-market roadways). For each section of highway observed, 21 elements separated into three highway components are assessed scores from 0 to 5 (0=NA, 1=Failed, 2=Poor, 3=Fair, 4=Good, 5=Excellent) in order to determine the condition of the highways. Each element within a component is weighted according to importance and each component is weighted according to importance to determine the overall condition of the highways. The overall score is converted to a percentage measurement for reporting (1=20 percent, 2=40 percent, 3=60 percent, 4=80 percent, 5=100 percent).

## Assessed Conditions

TxDOT has adopted a minimum condition level of 80 percent for the interstate system, 75 percent for the non-interstate system and 80 percent for the Central Texas Turnpike System based on TxMap assessments.

Year	Interstate Condition (Minimum 80%)	Non-Interstate Condition (Minimum 75%)	Central Texas Turnpike System (Minimum 80%)
2009	81.4%	76.5%	90.5%
2008	83.7%	79.0%	91.7%
2007	84.1%	79.5%	N/A
2006	83.4%	78.0%	N/A
2005	82.1%	77.9%	N/A

## Estimated and Actual Costs for Maintenance

The table below provides a comparison between TxDOT's estimate of maintenance expenditures required to maintain the highway system at or above the adopted condition levels and the actual expenditures.

Maintenance Costs (Amounts in Thousands)					
	2009	2008	2007	2006	2005
<b>INTERSTATE HIGHWAYS</b>					
Estimate	\$ 534,263	\$ 502,128	\$ 438,460	\$ 469,818	\$ 314,000
Actual	\$ 326,305	\$ 438,237	\$ 471,925	\$ 434,088	\$ 427,107
<b>OTHER HIGHWAYS</b>					
Estimate	\$ 2,687,869	\$ 2,455,243	\$ 1,702,612	\$ 1,608,015	\$ 1,590,417
Actual	\$ 1,519,110	\$ 1,649,317	\$ 1,881,285	\$ 1,750,438	\$ 1,604,781
<b>CENTRAL TEXAS TURNPIKE SYSTEM</b>					
Estimate	\$ 9,179	\$ 6,910	N/A	N/A	N/A
Actual	\$ 7,262	\$ 5,411	N/A	N/A	N/A

## Factors Affecting Condition Assessments

TxDOT continues to develop its methods for determining such estimates. As additional experience is acquired in the estimation and reporting processes, TxDOT hopes to achieve a greater correlation between the estimated maintenance expenditures needed to maintain the highway system at or above the adopted condition levels and the condition level of the highways. In comparing actual expenditures to estimated expenditures, factors such as increases in traffic, legislative mandates, budgetary constraints and environmental effects (rainfall, drought, freeze, thaw, etc.) should be considered as they may have a major impact on needed funds and the condition of Texas roads.



## Schedules of Funding Progress

The schedules of funding progress for the state's other post-employment benefit (OPEB) plans for the two most recent actuarial valuations are presented in the adjacent table.

The schedules of funding progress for the state's pension plans for the three most recent actuarial valuations are presented below.

## Schedules of Funding Progress – OPEB

(Amounts in Thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Excess of Assets over AAL (Unfunded AAL) (a) - (b)	Funded Ratio (a)/(b)	Covered Payroll (c)	Excess/UAAL as a Percentage of Covered Payroll ((a-b)/c)
UT System Employee Group Insurance Program (UT Plan)						
12/31/08	\$ 0	\$ 5,102,765	\$ (5,102,765)	0.0%	\$ 4,820,568	(105.9)%
12/31/07	\$ 0	\$ 5,014,217	\$ (5,014,217)	0.0%	\$ 4,312,904	(116.3)%
A&M Care Health and Life Plan (A&M Plan)						
09/01/08	\$ 0	\$ 1,258,563	\$ (1,258,563)	0.0%	\$ 1,260,683	(99.8)%
09/01/07	\$ 0	\$ 1,993,236	\$ (1,993,236)	0.0%	\$ 1,140,126	(174.8)%

## Schedules of Funding Progress – Pension

(Amounts in Thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Excess of Assets over AAL (Unfunded AAL) (a) - (b)	Funded Ratio (a)/(b)	Covered Payroll (c)	Excess/UAAL as a Percentage of Covered Payroll ((a-b)/c)
Employees Retirement System of Texas (ERS)						
08/31/09	\$ 23,509,622	\$ 26,191,650	\$ (2,682,028)	89.8%	\$ 5,814,417	(46.1)%
08/31/08	23,511,918	25,403,280	(1,891,362)	92.6%	5,379,527	(35.2)%
08/31/07	22,938,947	23,987,165	(1,048,218)	95.6%	5,253,723	(20.0)%
Law Enforcement and Custodial Officer Supplemental Retirement (LECOS)						
08/31/09	\$ 780,808	\$ 870,179	\$ (89,371)	89.7%	\$ 1,464,483	(6.1)%
08/31/08	774,509	842,135	(67,626)	92.0%	1,242,122	(5.4)%
08/31/07	747,765	762,666	(14,901)	98.0%	1,360,819	(1.1)%
Judicial Retirement System Plan One (JRS1)						
08/31/09	\$ 0	\$ 268,275	\$ (268,275)	0.0%	\$ 2,965	(9,048.1)%
08/31/08	0	289,671	(289,671)	0.0%	3,478	(8,328.7)%
08/31/07	0	312,852	(312,852)	0.0%	2,777	(11,265.8)%
Judicial Retirement System Plan Two (JRS2)						
08/31/09	\$ 248,279	\$ 255,569	\$ (7,290)	97.1%	\$ 67,968	(10.7)%
08/31/08	232,891	239,098	(6,207)	97.4%	66,110	(9.4)%
08/31/07	211,933	220,884	(8,951)	95.9%	64,654	(13.8)%
Teacher Retirement System of Texas (TRS)						
08/31/09	\$ 106,383,566	\$ 128,029,304	\$ (21,645,738)	83.1%	\$ 35,096,890	(61.7)%
08/31/08	110,233,420	121,756,542	(11,523,122)	90.5%	33,237,904	(34.7)%
08/31/07	103,419,088	115,963,722	(12,544,634)	89.2%	31,114,096	(40.3)%
Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Excess of Assets over AAL (Unfunded AAL) (a) - (b)	Funded Ratio (a)/(b)	Total Members Covered (not rounded)	Excess/UAAL Per Member Covered (not rounded)
Texas Emergency Services Retirement System (TESRS)						
08/31/08*	\$ 60,987	\$ 64,227	\$ (3,240)	95.0%	8,254	\$ (393)
08/31/06*	42,268	58,083	(15,815)	72.8%	8,061	(1,962)
08/31/04	38,141	51,567	(13,426)	74.0%	7,994	(1,680)

\* Actuarial assumptions and methodology were changed for the Aug. 31, 2006 and Aug. 31, 2008 valuations.





Section Two  
(continued)

**Other  
Supplementary  
Information**

**Combining Financial  
Statements and  
Schedules**

**Governmental  
Funds**



## Combining Balance Sheet – Nonmajor Governmental Funds

August 31, 2009 (Amounts in Thousands)

	Special Revenue Funds	Debt Service Funds	Capital Projects Funds	Permanent Funds	Total Nonmajor Funds
<b>ASSETS</b>					
Cash and Cash Equivalents	\$ 5,539,356	\$ 104,882	\$ 355,449	\$ 395	\$ 6,000,082
Short-Term Investments	47,853	110,938		65,111	223,902
Receivables:					
Accounts	5,223	1,225	2,503		8,951
Federal	777				777
Investment Trades				2,295	2,295
Interest and Dividends	13,964	447		2,256	16,667
Due From Other Funds	65,938		17,610		83,548
Inventories	362		82		444
Prepaid Items	4				4
Investments	10,117			927,004	937,121
Loans and Contracts	491,311				491,311
Other Assets	8,050				8,050
Restricted:					
Cash and Cash Equivalents	141,633	3,312			144,945
Loans and Contracts	683,221				683,221
Other Assets	88,694				88,694
Total Assets	<u>\$ 7,096,503</u>	<u>\$ 220,804</u>	<u>\$ 375,644</u>	<u>\$ 997,061</u>	<u>\$ 8,690,012</u>
<b>LIABILITIES AND FUND BALANCES</b>					
Liabilities:					
Payables:					
Accounts	\$ 66,623	\$ 2	\$ 36,536	\$ 502	\$ 103,663
Investment Trades				3,655	3,655
Payroll	6,870		60		6,930
Federal	4				4
Due To Other Funds	27,615		214		27,829
Interfund Payable	3,200		2,109	19	5,328
Deferred Revenues	454				454
Other Liabilities	1,980		2,013		3,993
Total Liabilities	<u>106,746</u>	<u>2</u>	<u>40,932</u>	<u>4,176</u>	<u>151,856</u>
Fund Balances:					
Reserved (Note 13)	1,218,851	220,802	445,946	515,924	2,401,523
Unreserved (Note 13)	5,770,906		(111,234)	476,961	6,136,633
Total Fund Balances	<u>6,989,757</u>	<u>220,802</u>	<u>334,712</u>	<u>992,885</u>	<u>8,538,156</u>
Total Liabilities and Fund Balances	<u>\$ 7,096,503</u>	<u>\$ 220,804</u>	<u>\$ 375,644</u>	<u>\$ 997,061</u>	<u>\$ 8,690,012</u>

# Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Governmental Funds

For the Fiscal Year Ended August 31, 2009 (Amounts in Thousands)

	Special Revenue Funds	Debt Service Funds	Capital Projects Funds	Permanent Funds	Total Nonmajor Funds
<b>REVENUES</b>					
Taxes	\$ 2,471,800	\$	\$	\$	\$ 2,471,800
Federal	30,525	15			30,540
Licenses, Fees and Permits	617,324				617,324
Interest and Other Investment Income (Loss)	156,065	7,153	5,042	(119,329)	48,931
Land Income	465			13	478
Sales of Goods and Services	5,459		17,189		22,648
Other	51,248	31	754		52,033
Total Revenues	<u>3,332,886</u>	<u>7,199</u>	<u>22,985</u>	<u>(119,316)</u>	<u>3,243,754</u>
<b>EXPENDITURES</b>					
Current:					
General Government	196,470	313	35,269	3,126	235,178
Education	1,371,721		1,167		1,372,888
Employee Benefits	11,316				11,316
Health and Human Services	15,916		14,173		30,089
Public Safety and Corrections	71,830		22,867		94,697
Transportation	1,829		16,438		18,267
Natural Resources and Recreation	79,426		2,181		81,607
Regulatory Services	99,832				99,832
Capital Outlay	2,784		158,397		161,181
Debt Service:					
Principal	32,290	561,745			594,035
Interest	228,628	216,651	25		445,304
Other Financing Fees	9,233		2,395		11,628
Total Expenditures	<u>2,121,275</u>	<u>778,709</u>	<u>252,912</u>	<u>3,126</u>	<u>3,156,022</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>1,211,611</u>	<u>(771,510)</u>	<u>(229,927)</u>	<u>(122,442)</u>	<u>87,732</u>
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfer In	1,875,692	835,757	1,747	249	2,713,445
Transfer Out	(3,514,849)	(22,702)	(8,942)	(25,132)	(3,571,625)
Bonds and Notes Issued	1,599,695		324,880		1,924,575
Bonds Issued for Refunding		269,425	1,495		270,920
Premiums on Bonds Issued	3,269	29,365			32,634
Payment to Escrow for Refunding		(308,736)			(308,736)
Insurance Recoveries			301		301
Total Other Financing Sources (Uses)	<u>(36,193)</u>	<u>803,109</u>	<u>319,481</u>	<u>(24,883)</u>	<u>1,061,514</u>
Net Change in Fund Balances	<u>1,175,418</u>	<u>31,599</u>	<u>89,554</u>	<u>(147,325)</u>	<u>1,149,246</u>
Fund Balances, September 1, 2008	5,824,223	189,203	190,623	1,140,210	7,344,259
Restatements	(9,884)		54,535		44,651
Fund Balances, September 1, 2008, as Restated	<u>5,814,339</u>	<u>189,203</u>	<u>245,158</u>	<u>1,140,210</u>	<u>7,388,910</u>
Fund Balances, August 31, 2009	<u>\$ 6,989,757</u>	<u>\$ 220,802</u>	<u>\$ 334,712</u>	<u>\$ 992,885</u>	<u>\$ 8,538,156</u>

## Nonmajor Special Revenue Funds

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The **Property Tax Relief Fund** is outside the general revenue fund. The proceeds of the fund are from allocations of the computation of motor vehicle sales tax, collection of all tobacco products tax increase and calculated amounts from franchise taxes. The intent of the fund is to reduce school district property taxes.

The **State Textbook Fund** holds money transferred from the available school fund to provide free textbooks for use of children attending public schools.

The **Water Development Funds** receive proceeds from the sale of Texas Water Development bonds for the purpose of aiding and making funds available to various political subdivisions for projects and other authorized purposes. The funds also receive gifts or grants for the purpose of assisting economically distressed areas. Monies in the funds are invested.

The **System Benefit Fund** receives funds from a nonby-passable fee in an amount not to exceed 65 cents per megawatt hour and interest earned. The funds are used to provide funding for programs to assist low-income electric customers, customer education and school funding loss mechanism.

The **Available School Fund** receives distributions from the permanent school fund based on total return of investment assets, allocations of motor fuel taxes and appropriations made by the Legislature. The fund is to be used for the support of public schools.

The **Texas Mobility Fund** accounts for the construction, reconstruction, acquisition and expansion of state highways, including costs of design and acquisition of rights of way. It provides payment of a portion of the costs of construction, publicly owned toll roads and other public transportation projects. It is financed primarily from the sale of obligations of the state, appropriations made by the Legislature of revenue, including taxes, other money not otherwise dedicated by the construction and money received from a regional mobility authority that determines it has surplus revenue from turnpike projects and chooses to send the excess to this fund.



## Combining Balance Sheet – Nonmajor Special Revenue Funds

August 31, 2009 (Amounts in Thousands)

	Property Tax Relief Fund	State Textbook Fund	Water Development Funds	System Benefit Fund	Available School Fund	Texas Mobility Fund	Other Nonmajor Special Revenue Funds*	Totals
<b>ASSETS</b>								
Cash and Cash Equivalents	\$ 3,000,000	\$ 6,875	\$ 194,262	\$ 548,823	\$ 52,954	\$ 1,583,079	\$ 153,363	\$ 5,539,356
Short-Term Investments			33,463				14,390	47,853
Receivables:								
Accounts		306	305			751	3,861	5,223
Federal			50			324	403	777
Interest and Dividends	3,883	31	1,902		161		7,987	13,964
Due From Other Funds					63,530		2,408	65,938
Inventories							362	362
Prepaid Items							4	4
Investments							10,117	10,117
Loans and Contracts			491,311					491,311
Other Assets							8,050	8,050
Restricted:								
Cash and Cash Equivalents							141,633	141,633
Loans and Contracts							683,221	683,221
Other Assets							88,694	88,694
Total Assets	<u>\$ 3,003,883</u>	<u>\$ 7,212</u>	<u>\$ 721,293</u>	<u>\$ 548,823</u>	<u>\$ 116,645</u>	<u>\$ 1,584,154</u>	<u>\$ 1,114,493</u>	<u>\$ 7,096,503</u>
<b>LIABILITIES AND FUND BALANCES</b>								
Liabilities:								
Payables:								
Accounts	\$	\$ 40,223	\$ 870	\$ 17,399	\$	\$ 225	\$ 7,906	\$ 66,623
Payroll		162					6,708	6,870
Federal							4	4
Due To Other Funds			535			27,071	9	27,615
Interfund Payable			3,200					3,200
Deferred Revenues						324	130	454
Other Liabilities							1,980	1,980
Total Liabilities	<u>0</u>	<u>40,385</u>	<u>4,605</u>	<u>17,399</u>	<u>0</u>	<u>27,620</u>	<u>16,737</u>	<u>106,746</u>
Fund Balances/(Deficits):								
Reserved for:								
Encumbrances		5	27,305	14,650			6,447	48,407
Inventories							362	362
Imprest Accounts							10	10
Loans and Contracts			486,851				683,221	1,170,072
Unreserved:								
Designated for:								
General Government	3,003,883						119,349	3,123,232
Regulatory Services				516,774			6,374	523,148
Health and Human Services							12,136	12,136
Natural Resources and Recreation			202,532				27,499	230,031
Education					116,645		237,183	353,828
Transportation						1,556,534	375	1,556,909
Public Safety and Corrections							4,730	4,730
Employee Benefits							71	71
Undesignated		(33,178)					(1)	(33,179)
Total Fund Balances	<u>3,003,883</u>	<u>(33,173)</u>	<u>716,688</u>	<u>531,424</u>	<u>116,645</u>	<u>1,556,534</u>	<u>1,097,756</u>	<u>6,989,757</u>
Total Liabilities and Fund Balances	<u>\$ 3,003,883</u>	<u>\$ 7,212</u>	<u>\$ 721,293</u>	<u>\$ 548,823</u>	<u>\$ 116,645</u>	<u>\$ 1,584,154</u>	<u>\$ 1,114,493</u>	<u>\$ 7,096,503</u>

\* The other nonmajor special revenue funds column includes blended component units and the special revenue funds of the Employees Retirement System of Texas and the student loan fund. These funds do not meet the materiality threshold for separate column presentation.

# Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Special Revenue Funds

For the Fiscal Year Ended August 31, 2009 (Amounts in Thousands)

	Property Tax Relief Fund	State Textbook Fund	Water Development Funds	System Benefit Fund	Available School Fund	Texas Mobility Fund	Other Nonmajor Special Revenue Funds*	Totals
<b>REVENUES</b>								
Taxes	\$ 2,471,800	\$	\$	\$	\$	\$	\$	\$ 2,471,800
Federal			23,968				6,557	30,525
Licenses, Fees and Permits		22		137,963		319,044	160,295	617,324
Interest and Other Investment Income	66,376	530	13,837	11,641	2,094	15,088	46,499	156,065
Land Income							465	465
Sales of Goods and Services		2,288	237				2,934	5,459
Other			3,717		2		47,529	51,248
Total Revenues	<u>2,538,176</u>	<u>2,840</u>	<u>41,759</u>	<u>149,604</u>	<u>2,096</u>	<u>334,132</u>	<u>264,279</u>	<u>3,332,886</u>
<b>EXPENDITURES</b>								
Current:								
General Government							196,470	196,470
Education		123,312			1,225,357		23,052	1,371,721
Employee Benefits							11,316	11,316
Health and Human Services							15,916	15,916
Public Safety and Corrections							71,830	71,830
Transportation						302	1,527	1,829
Natural Resources and Recreation			48,256				31,170	79,426
Regulatory Services				97,453			2,379	99,832
Capital Outlay			12				2,772	2,784
Debt Service:								
Principal						32,290		32,290
Interest						228,628		228,628
Other Financing Fees						8,152	1,081	9,233
Total Expenditures	<u>0</u>	<u>123,312</u>	<u>48,268</u>	<u>97,453</u>	<u>1,225,357</u>	<u>269,372</u>	<u>357,513</u>	<u>2,121,275</u>
Excess (Deficiency) of Revenues								
Over (Under) Expenditures	<u>2,538,176</u>	<u>(120,472)</u>	<u>(6,509)</u>	<u>52,151</u>	<u>(1,223,261)</u>	<u>64,760</u>	<u>(93,234)</u>	<u>1,211,611</u>
<b>OTHER FINANCING SOURCES (USES)</b>								
Transfer In		204,500	2,817		1,461,108	45,817	161,450	1,875,692
Transfer Out	(2,536,209)		(15,063)		(205,571)	(645,798)	(112,208)	(3,514,849)
Bonds and Notes Issued			319,470			1,208,495	71,730	1,599,695
Premiums on Bonds Issued							3,269	3,269
Total Other Financing Sources (Uses)	<u>(2,536,209)</u>	<u>204,500</u>	<u>307,224</u>	<u>0</u>	<u>1,255,537</u>	<u>608,514</u>	<u>124,241</u>	<u>(36,193)</u>
Net Change in Fund Balances	<u>1,967</u>	<u>84,028</u>	<u>300,715</u>	<u>52,151</u>	<u>32,276</u>	<u>673,274</u>	<u>31,007</u>	<u>1,175,418</u>
Fund Balances, September 1, 2008	3,001,916	(117,201)	415,973	479,273	84,369	883,260	1,076,633	5,824,223
Restatements							(9,884)	(9,884)
Fund Balances, September 1, 2008, as Restated	<u>3,001,916</u>	<u>(117,201)</u>	<u>415,973</u>	<u>479,273</u>	<u>84,369</u>	<u>883,260</u>	<u>1,066,749</u>	<u>5,814,339</u>
Fund Balances, August 31, 2009	<u>\$ 3,003,883</u>	<u>\$ (33,173)</u>	<u>\$ 716,688</u>	<u>\$ 531,424</u>	<u>\$ 116,645</u>	<u>\$ 1,556,534</u>	<u>\$ 1,097,756</u>	<u>\$ 6,989,757</u>

\* The other nonmajor special revenue funds column includes blended component units and the special revenue funds of the Employees Retirement System of Texas and the student loan fund. These funds do not meet the materiality threshold for separate column presentation.

# Budgetary Comparison Schedule Nonmajor Special Revenue Funds

For the Fiscal Year Ended August 31, 2009 (Amounts in Thousands)

	Property Tax Relief Fund				State Textbook Fund			
	Budgetary Amounts		Actual Amounts	Final To Actual	Budgetary Amounts		Actual Amounts	Final To Actual
	Original	Final	Budgetary Basis	Variance	Original	Final	Budgetary Basis	Variance
REVENUES								
Taxes	\$ 3,836,933	\$ 2,589,424	\$ 2,471,800	\$ (117,624)	\$	\$	\$	\$
Federal								
Licenses, Fees and Permits					300	666	22	(644)
Interest and Other Investment Income	13,666	89,470	64,409	(25,061)	268	447	547	100
Land Income								
Sales of Goods and Services					1,750	3,675	2,288	(1,387)
Other								
Total Revenues	3,850,599	2,678,894	2,536,209	(142,685)	2,318	4,788	2,857	(1,931)
EXPENDITURES								
General Government								
Education	3,846,492	3,846,492		3,846,492	2,056	4,657	215,952	(211,295)
Employee Benefits								
Health and Human Services								
Public Safety and Corrections								
Transportation								
Natural Resources and Recreation								
Regulatory Services								
Total Expenditures	3,846,492	3,846,492	0	3,846,492	2,056	4,657	215,952	(211,295)
Excess (Deficiency) of Revenues								
Over (Under) Expenditures	4,107	(1,167,598)	2,536,209	3,703,807	262	131	(213,095)	(213,226)
OTHER FINANCING SOURCES (USES)								
Transfer In							204,500	204,500
Transfer Out			(2,536,209)	(2,536,209)				
Bond Proceeds								
Available Beginning Balances	(4,012,729)	4,206,925	3,000,000	(1,206,925)	6,159	4,695	15,410	10,715
Total Other Financing Sources (Uses)	(4,012,729)	4,206,925	463,791	(3,743,134)	6,159	4,695	219,910	215,215
Excess (Deficiency) of Revenues and								
Other Financing Sources Over (Under)								
Expenditures and Other Financing Uses	\$ (4,008,622)	\$ 3,039,327	\$ 3,000,000	\$ (39,327)	\$ 6,421	\$ 4,826	\$ 6,815	\$ 1,989

Water Development Funds				System Benefit Fund				Available School Fund			
Budgetary Amounts		Actual	Final To	Budgetary Amounts		Actual	Final To	Budgetary Amounts		Actual	Final To
Original	Final	Amounts	Actual	Original	Final	Amounts	Actual	Original	Final	Amounts	Actual
		Budgetary	Variance			Budgetary	Variance			Budgetary	Variance
		Basis				Basis				Basis	
\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
	23,888	23,918	30								
16,286	14,343	12,869	(1,474)	150,336	145,977	137,963	(8,014)				
				17,900	15,409	11,641	(3,768)	5,329	5,287	2,209	(3,078)
150	250	9	(241)								
	3,700		(3,700)							2	2
16,436	42,181	36,796	(5,385)	168,236	161,386	149,604	(11,782)	5,329	5,287	2,211	(3,076)
								1,502,400	1,502,402	1,225,357	277,045
9,415	40,856	48,331	(7,475)								
				92,896	92,988	103,999	(11,011)				
9,415	40,856	48,331	(7,475)	92,896	92,988	103,999	(11,011)	1,502,400	1,502,402	1,225,357	277,045
7,021	1,325	(11,535)	(12,860)	75,340	68,398	45,605	(22,793)	(1,497,071)	(1,497,115)	(1,223,146)	273,969
		(7,614)	(7,614)					1,481,862	1,478,860	1,461,109	(17,751)
										(205,570)	(205,570)
98,015	96,656	92,036	(4,620)	468,379	468,275	503,217	34,942	22,174	17,934	20,643	2,709
98,015	96,656	84,422	(12,234)	468,379	468,275	503,217	34,942	1,504,036	1,496,794	1,276,182	(220,612)
\$ 105,036	\$ 97,981	\$ 72,887	\$ (25,094)	\$ 543,719	\$ 536,673	\$ 548,822	\$ 12,149	\$ 6,965	\$ (321)	\$ 53,036	\$ 53,357

Concluded on the following page

# Budgetary Comparison Schedule Nonmajor Special Revenue Funds (concluded)

For the Fiscal Year Ended August 31, 2009 (Amounts in Thousands)

	Texas Mobility Fund				Other Nonmajor Special Revenue Funds			
			Actual	Final To Actual Variance			Actual	Final To Actual Variance
	Budgetary Amounts		Amounts		Budgetary Amounts		Amounts	
	Original	Final	Budgetary Basis		Original	Final	Budgetary Basis	
REVENUES								
Taxes	\$	\$	\$	\$	\$	\$	\$	\$
Federal					13,393	7,466	(253,219)	(260,685)
Licenses, Fees and Permits	267,499	249,944	319,504	69,560	74,134	83,814	89,307	5,493
Interest and Other Investment Income	8,000	9,438	15,088	5,650	4,096	2,096	40,609	38,513
Land Income							464	464
Sales of Goods and Services						24,201	(1,843)	(26,044)
Other					48	90	9,298	9,208
Total Revenues	<u>275,499</u>	<u>259,382</u>	<u>334,592</u>	<u>75,210</u>	<u>91,671</u>	<u>117,667</u>	<u>(115,384)</u>	<u>(233,051)</u>
EXPENDITURES								
General Government					516,742	267,213	92,445	174,768
Education					5,066	5,999	15,094	(9,095)
Employee Benefits					12,594	12,594	11,249	1,345
Health and Human Services					29,299	29,604	18,651	10,953
Public Safety and Corrections					2,232	2,232		2,232
Transportation	1,467,228	1,473,457	96	1,473,361				
Natural Resources and Recreation					23,371	32,954	27,031	5,923
Regulatory Services							856	(856)
Total Expenditures	<u>1,467,228</u>	<u>1,473,457</u>	<u>96</u>	<u>1,473,361</u>	<u>589,304</u>	<u>350,596</u>	<u>165,326</u>	<u>185,270</u>
Excess (Deficiency) of Revenues								
Over (Under) Expenditures	<u>(1,191,729)</u>	<u>(1,214,075)</u>	<u>334,496</u>	<u>1,548,571</u>	<u>(497,633)</u>	<u>(232,929)</u>	<u>(280,710)</u>	<u>(47,781)</u>
OTHER FINANCING SOURCES (USES)								
Transfer In			45,817	45,817	7,300	7,300	148,999	141,699
Transfer Out			(645,798)	(645,798)			(111,492)	(111,492)
Bond Proceeds*	1,208,495	1,208,495	1,208,495					
Available Beginning Balances	1,103,472	490,731	1,312,704	821,973	(774,691)	(19,697)	437,097	456,794
Total Other Financing Sources (Uses)	<u>2,311,967</u>	<u>1,699,226</u>	<u>1,921,218</u>	<u>221,992</u>	<u>(767,391)</u>	<u>(12,397)</u>	<u>474,604</u>	<u>487,001</u>
Excess (Deficiency) of Revenues and								
Other Financing Sources Over (Under)								
Expenditures and Other Financing Uses	\$ 1,120,238	\$ 485,151	\$ 2,255,714	\$ 1,770,563	\$ (1,265,024)	\$ (245,326)	\$ 193,894	\$ 439,220

\* The Texas mobility fund received \$1.2 billion in bond proceeds. These are authorized by Article 3, Section 49-p of the Texas Constitution.

## Nonmajor Debt Service Funds

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The **Texas College Student Loan Bonds Interest and Sinking Fund** receives deposits from the Texas opportunity plan fund for payment of current interest and principal and establishment of a reserve.

The **Texas Public Finance Authority Revenue Bond Funds** receive proceeds and accrued interest from the sale of revenue bonds and provide the debt service requirements for those bonds.

The **Texas Public Finance Authority G. O. Bond Funds** receive proceeds and accrued interest from the sale of general obligation bonds and provide the debt service requirements for those bonds.

The **Texas Public Finance Authority Commercial Paper Fund** receives deposits of any accrued interest on sale of notes and pledged revenues necessary to make debt service payments.

The **Texas Department of Transportation State Highway Debt Service Fund** receives proceeds and accrued interest from the sale of revenue bonds and provides the debt service requirements for those bonds.

## Combining Balance Sheet – Nonmajor Debt Service Funds

August 31, 2009 (Amounts in Thousands)

	Texas College Student Loan Bonds Interest and Sinking Fund	Texas Public Finance Authority Revenue Bond Funds	Texas Public Finance Authority G.O. Bond Funds	Texas Public Finance Authority Commercial Paper Fund	Texas Department of Transportation State Highway Debt Service Fund*	Other Nonmajor Debt Service Funds**	Totals
<b>ASSETS</b>							
Cash and Cash Equivalents	\$ 144	\$ 15	\$ 29	\$ 4,996	\$ 99,685	\$ 13	\$ 104,882
Short-Term Investments	110,938						110,938
Receivables:							
Accounts	1,225						1,225
Interest and Dividends	447						447
Restricted:							
Cash and Cash Equivalents	3,307					5	3,312
Total Assets	<u>\$ 116,061</u>	<u>\$ 15</u>	<u>\$ 29</u>	<u>\$ 4,996</u>	<u>\$ 99,685</u>	<u>\$ 18</u>	<u>\$ 220,804</u>
<b>LIABILITIES AND FUND BALANCES</b>							
Liabilities:							
Payables:							
Accounts	\$ 1	\$ 0	\$ 1	\$ 0	\$ 0	\$ 0	\$ 2
Total Liabilities	<u>1</u>	<u>0</u>	<u>1</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>2</u>
Fund Balances:							
Reserved for Debt Service	116,060	15	28	4,996	99,685	18	220,802
Total Fund Balances	<u>116,060</u>	<u>15</u>	<u>28</u>	<u>4,996</u>	<u>99,685</u>	<u>18</u>	<u>220,802</u>
Total Liabilities and Fund Balances	<u>\$ 116,061</u>	<u>\$ 15</u>	<u>\$ 29</u>	<u>\$ 4,996</u>	<u>\$ 99,685</u>	<u>\$ 18</u>	<u>\$ 220,804</u>

\* This is a new fund that is discretely presented.

\*\* The Texas Water Development Board bond funds are now being reported in this column.



# Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Debt Service Funds

For the Fiscal Year Ended August 31, 2009 (Amounts in Thousands)

	Texas College Student Loan Bonds Interest and Sinking Fund	Texas Public Finance Authority Revenue Bond Funds	Texas Public Finance Authority G.O. Bond Funds	Texas Public Finance Authority Commercial Paper Fund	Texas Department of Transportation State Highway Debt Service Fund*	Other Nonmajor Debt Service Funds**	Totals
<b>REVENUES</b>							
Federal	\$ 15	\$	\$	\$	\$	\$	\$ 15
Interest and Other Investment Income	5,975	53	160	105	840	20	7,153
Other			31				31
Total Revenues	<u>5,990</u>	<u>53</u>	<u>191</u>	<u>105</u>	<u>840</u>	<u>20</u>	<u>7,199</u>
<b>EXPENDITURES</b>							
Current:							
General Government		1	312				313
Debt Service:							
Principal	103,855	58,965	242,975	20,620	94,155	41,175	561,745
Interest	28,744	15,195	70,466	1,363	68,837	32,046	216,651
Total Expenditures	<u>132,599</u>	<u>74,161</u>	<u>313,753</u>	<u>21,983</u>	<u>162,992</u>	<u>73,221</u>	<u>778,709</u>
Deficiency of Revenues							
Under Expenditures	<u>(126,609)</u>	<u>(74,108)</u>	<u>(313,562)</u>	<u>(21,878)</u>	<u>(162,152)</u>	<u>(73,201)</u>	<u>(771,510)</u>
<b>OTHER FINANCING SOURCES (USES)</b>							
Transfer In	82,675	72,814	323,291	22,033	261,837	73,107	835,757
Transfer Out	(22,600)	(102)					(22,702)
Bonds Issued for Refunding			269,425				269,425
Premiums on Bonds Issued			29,365				29,365
Payment to Escrow for Refunding			(308,736)				(308,736)
Total Other Financing Sources (Uses)	<u>60,075</u>	<u>72,712</u>	<u>313,345</u>	<u>22,033</u>	<u>261,837</u>	<u>73,107</u>	<u>803,109</u>
Net Change in Fund Balances	<u>(66,534)</u>	<u>(1,396)</u>	<u>(217)</u>	<u>155</u>	<u>99,685</u>	<u>(94)</u>	<u>31,599</u>
Fund Balances, September 1, 2008	<u>182,594</u>	<u>1,411</u>	<u>245</u>	<u>4,841</u>		<u>112</u>	<u>189,203</u>
Fund Balances, August 31, 2009	<u>\$ 116,060</u>	<u>\$ 15</u>	<u>\$ 28</u>	<u>\$ 4,996</u>	<u>\$ 99,685</u>	<u>\$ 18</u>	<u>\$ 220,802</u>

\* This is a new fund that is discretely presented.

\*\* The Texas Water Development Board bond funds are now being reported in this column.



## Nonmajor Capital Projects Funds

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The **Texas Public Finance Authority Administration Project Funds** utilize long-term financing for various state construction, repair or renovation projects. Funds are also used to refinance purchases of equipment by various state agencies.

The **Texas Parks and Wildlife Department Project Funds** are used for the acquisition and development of state park sites. Revenues from park entrance fees are used for the repayments of long-term debt incurred.

The **Texas Facilities Commission Project Funds** are used to administer the state's major and minor building construction programs.

The **Texas Department of Criminal Justice Prison Project Funds** are used for construction of regional centers and for repairs and minor construction of correctional facilities.

The **Texas Youth Commission Project Funds** are used to pay for minor construction and repairs of the Texas Youth Commission.

The **Texas Health Agencies Project Funds** are used to pay for the cost of construction, repair and remodeling for certain mental health facilities and other health related projects.

The **Texas Department of Public Safety Project Funds** are used to finance construction of new Department of Public Safety buildings and Crime Lab facilities in various state locations.

The **Texas Department of Transportation Project Funds** are used to provide financial assistance to counties for roadway projects serving border colonias.

The **Texas Historical Commission Project Funds** are used to provide financial assistance to counties for the repair and renovation of courthouses.

## Combining Balance Sheet – Nonmajor Capital Projects Funds

August 31, 2009 (Amounts in Thousands)

	Texas Public Finance Authority Administration Project Funds	Texas Parks and Wildlife Department Project Funds	Texas Facilities Commission Project Funds	Texas Department of Criminal Justice Prison Project Funds	Texas Youth Commission Project Funds
<b>ASSETS</b>					
Cash and Cash Equivalents	\$ 2,642	\$ 37,064	\$ 28,683	\$ 28,090	\$ 4,289
Accounts Receivable			2,082		
Due From Other Funds	3		17,206		
Inventories	2				
Total Assets	<u>\$ 2,647</u>	<u>\$ 37,064</u>	<u>\$ 47,971</u>	<u>\$ 28,090</u>	<u>\$ 4,289</u>
<b>LIABILITIES AND FUND BALANCES</b>					
Liabilities:					
Payables:					
Accounts	\$ 16	\$ 2,218	\$ 2,819	\$ 2,996	\$ 311
Payroll	60				
Due To Other Funds	3	211			
Interfund Payable	19				
Other Liabilities			1,630	383	
Total Liabilities	<u>98</u>	<u>2,429</u>	<u>4,449</u>	<u>3,379</u>	<u>311</u>
Fund Balances:					
Reserved for:					
Encumbrances	1	14,964	44,416	16,624	2,249
Inventories	2				
Capital Projects	4,511			302	11,466
Unreserved:					
Undesignated	(1,965)	19,671	(894)	7,785	(9,737)
Total Fund Balances	<u>2,549</u>	<u>34,635</u>	<u>43,522</u>	<u>24,711</u>	<u>3,978</u>
Total Liabilities and Fund Balances	<u>\$ 2,647</u>	<u>\$ 37,064</u>	<u>\$ 47,971</u>	<u>\$ 28,090</u>	<u>\$ 4,289</u>

Texas Health Agencies Project Funds	Texas Department of Public Safety Project Funds	Texas Department of Transportation Project Funds	Texas Historical Commission Project Funds	Other Nonmajor Capital Projects Funds	Totals
\$ 74,626	\$ 113,802	\$ 9,281	\$ 35,391	\$ 21,581	\$ 355,449
	421				2,503
401					17,610
				80	82
<u>\$ 75,027</u>	<u>\$ 114,223</u>	<u>\$ 9,281</u>	<u>\$ 35,391</u>	<u>\$ 21,661</u>	<u>\$ 375,644</u>
\$ 20,323	\$ 420	\$ 296	\$ 2,904	\$ 4,233	\$ 36,536
					60
					214
2,090					2,109
					2,013
<u>22,413</u>	<u>420</u>	<u>296</u>	<u>2,904</u>	<u>4,233</u>	<u>40,932</u>
8,721	48,291		45,865	35,168	216,299
				80	82
103,039	110,180		67		229,565
(59,146)	(44,668)	8,985	(13,445)	(17,820)	(111,234)
<u>52,614</u>	<u>113,803</u>	<u>8,985</u>	<u>32,487</u>	<u>17,428</u>	<u>334,712</u>
<u>\$ 75,027</u>	<u>\$ 114,223</u>	<u>\$ 9,281</u>	<u>\$ 35,391</u>	<u>\$ 21,661</u>	<u>\$ 375,644</u>

# Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Capital Projects Funds

For the Fiscal Year Ended August 31, 2009 (Amounts in Thousands)

	Texas Public Finance Authority Administration Project Funds	Texas Parks and Wildlife Department Project Funds	Texas Facilities Commission Project Funds	Texas Department of Criminal Justice Prison Project Funds	Texas Youth Commission Project Funds
<b>REVENUES</b>					
Interest and Other Investment Income	\$ 72	\$ 532	\$ 1,124	\$ 1,144	\$ 163
Sales of Goods and Services			17,185		
Other			322		
Total Revenues	<u>72</u>	<u>532</u>	<u>18,631</u>	<u>1,144</u>	<u>163</u>
<b>EXPENDITURES</b>					
Current:					
General Government	1,117		19,166		
Education					
Health and Human Services					
Public Safety and Corrections				21,540	
Transportation					
Natural Resources and Recreation		2,181			
Capital Outlay	208	13,828	33,560	18,330	12,879
Debt Service:					
Interest					
Other Financing Fees	2,395				
Total Expenditures	<u>3,720</u>	<u>16,009</u>	<u>52,726</u>	<u>39,870</u>	<u>12,879</u>
Deficiency of Revenues					
Under Expenditures	<u>(3,648)</u>	<u>(15,477)</u>	<u>(34,095)</u>	<u>(38,726)</u>	<u>(12,716)</u>
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfer In	705				
Transfer Out	(8,460)	(6)	(137)		(34)
Bonds and Notes Issued	6,725	25,000		3,000	9,000
Bonds Issued for Refunding	1,495				
Insurance Recoveries	301				
Total Other Financing Sources (Uses)	<u>766</u>	<u>24,994</u>	<u>(137)</u>	<u>3,000</u>	<u>8,966</u>
Net Change in Fund Balances	<u>(2,882)</u>	<u>9,517</u>	<u>(34,232)</u>	<u>(35,726)</u>	<u>(3,750)</u>
Fund Balances, September 1, 2008	5,431	25,118	77,754	60,419	7,728
Restatements				18	
Fund Balances, September 1, 2008, as Restated	<u>5,431</u>	<u>25,118</u>	<u>77,754</u>	<u>60,437</u>	<u>7,728</u>
Fund Balances, August 31, 2009	<u>\$ 2,549</u>	<u>\$ 34,635</u>	<u>\$ 43,522</u>	<u>\$ 24,711</u>	<u>\$ 3,978</u>

Texas Health Agencies Project Funds	Texas Department of Public Safety Project Funds	Texas Department of Transportation Project Funds	Texas Historical Commission Project Funds	Other Nonmajor Capital Projects Funds	Totals
\$ 510	\$ 433	\$ 283	\$ 401	\$ 380	\$ 5,042
4					17,189
1	431				754
515	864	283	401	380	22,985
			14,986		35,269
				1,167	1,167
14,173					14,173
	1,272			55	22,867
		16,438			16,438
					2,181
36,743	21,225		6,289	15,335	158,397
25					25
					2,395
50,941	22,497	16,438	21,275	16,557	252,912
(50,426)	(21,633)	(16,155)	(20,874)	(16,177)	(229,927)
403				639	1,747
(233)			(70)	(2)	(8,942)
86,575	110,180	20,000	41,400	23,000	324,880
					1,495
					301
86,745	110,180	20,000	41,330	23,637	319,481
36,319	88,547	3,845	20,456	7,460	89,554
(38,222)	25,256	5,140	12,031	9,968	190,623
54,517					54,535
16,295	25,256	5,140	12,031	9,968	245,158
\$ 52,614	\$ 113,803	\$ 8,985	\$ 32,487	\$ 17,428	\$ 334,712





## Nonmajor Permanent Funds

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### The **Permanent Health Fund for Higher Education**

is a permanent fund established by the Legislature from a portion of the money received in the settlement of *The State of Texas v. The American Tobacco Co., et.al.* The corpus of the account has been designated by the Legislature to be preserved. Distributions of earnings on the account are to be transferred to other accounts and used for health care costs, tobacco education and enforcement.

The **Permanent Higher Education Fund** is established by legislation to dedicate portions of the state's revenues. The principal shall never be expended. At the beginning of the fiscal year after the fund reaches \$2 billion and each year thereafter, 10 percent of the interest, dividends and other income accruing from investments during the

previous fiscal year shall be deposited and become part of the principal of the fund. Out of the remainder of the annual income, there shall be appropriated an annual sum sufficient to pay the principal and interest due on the bonds and notes issued and the balance shall be allocated for appropriations made in Article VII, Sec. 17(a) of the Texas Constitution.

The **Texas Commission on the Arts Trust Fund** consists of the Texas cultural endowment fund account held outside the treasury used for initial seed money for the endowment and deposits toward the endowment. This fund is to provide a stable funding source for the enhancement of art education, encourage economic development and advance the well being of communities.

## Combining Balance Sheet – Nonmajor Permanent Funds

August 31, 2009 (Amounts in Thousands)

	Permanent Health Fund for Higher Education	Permanent Higher Education Fund	Texas Commission on the Arts Trust Fund	Other Nonmajor Permanent Funds	Totals
<b>ASSETS</b>					
Cash and Cash Equivalents	\$	\$	\$	\$	\$
Short-Term Investments	30,506	34,605	100	295	65,111
Receivables:					
Investment Trades	1,088	1,207			2,295
Interest and Dividends	1,056	1,200			2,256
Investments	434,644	481,103	8,319	2,938	927,004
Total Assets	<u>\$ 467,294</u>	<u>\$ 518,115</u>	<u>\$ 8,419</u>	<u>\$ 3,233</u>	<u>\$ 997,061</u>
<b>LIABILITIES AND FUND BALANCES</b>					
Liabilities:					
Payables:					
Accounts	\$ 237	\$ 261	\$	\$ 4	\$ 502
Investment Trades	1,721	1,934			3,655
Interfund Payable				19	19
Total Liabilities	<u>1,958</u>	<u>2,195</u>	<u>0</u>	<u>23</u>	<u>4,176</u>
Fund Balances:					
Reserved for:					
Encumbrances				4	4
Education		515,920			515,920
Unreserved:					
Designated for:					
Permanent Health Fund	465,336			2,929	468,265
Undesignated			8,419	277	8,696
Total Fund Balances	<u>465,336</u>	<u>515,920</u>	<u>8,419</u>	<u>3,210</u>	<u>992,885</u>
Total Liabilities and Fund Balances	<u>\$ 467,294</u>	<u>\$ 518,115</u>	<u>\$ 8,419</u>	<u>\$ 3,233</u>	<u>\$ 997,061</u>

# Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Permanent Funds

For the Fiscal Year Ended August 31, 2009 (Amounts in Thousands)

	Permanent Health Fund for Higher Education	Permanent Higher Education Fund	Texas Commission on the Arts Trust Fund	Other Nonmajor Permanent Funds	Totals
<b>REVENUES</b>					
Interest and Other Investment Income (Loss)	\$ (60,564)	\$ (58,525)	\$ (833)	\$ 593	\$ (119,329)
Land Income				13	13
Total Revenues	<u>(60,564)</u>	<u>(58,525)</u>	<u>(833)</u>	<u>606</u>	<u>(119,316)</u>
<b>EXPENDITURES</b>					
Current:					
General Government	<u>1,382</u>	<u>1,485</u>	<u>59</u>	<u>200</u>	<u>3,126</u>
Total Expenditures	<u>1,382</u>	<u>1,485</u>	<u>59</u>	<u>200</u>	<u>3,126</u>
Excess (Deficiency) of Revenues					
Over (Under) Expenditures	<u>(61,946)</u>	<u>(60,010)</u>	<u>(892)</u>	<u>406</u>	<u>(122,442)</u>
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfer In				249	249
Transfer Out	<u>(24,659)</u>		<u>(460)</u>	<u>(13)</u>	<u>(25,132)</u>
Total Other Financing Sources (Uses)	<u>(24,659)</u>	<u>0</u>	<u>(460)</u>	<u>236</u>	<u>(24,883)</u>
Net Change in Fund Balances	<u>(86,605)</u>	<u>(60,010)</u>	<u>(1,352)</u>	<u>642</u>	<u>(147,325)</u>
Fund Balances, September 1, 2008	<u>551,941</u>	<u>575,930</u>	<u>9,771</u>	<u>2,568</u>	<u>1,140,210</u>
Fund Balances, August 31, 2009	<u>\$ 465,336</u>	<u>\$ 515,920</u>	<u>\$ 8,419</u>	<u>\$ 3,210</u>	<u>\$ 992,885</u>





## Section Two (continued)

# Enterprise Funds



## Nonmajor Enterprise Funds

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The **Texas Workforce Commission Unemployment Trust Fund Accounts** are funds collected under the Old Age and Survivors Insurance Act on deposit with the treasurer of the United States of America to the credit of this state. It also serves as a clearance fund for the unemployment compensation fund held by the United States Treasury and as a holding account for paying benefits under the Unemployment Compensation Act.

The **Texas Department of Housing and Community Affairs** issues bonds to assist in financing the purchase of homes or the construction of rental housing for families with low to moderate incomes. Loan payments and rentals provide the revenue for debt service payments.

The **Texas Lottery Commission** accounts for the operation of lottery games for the state. This fund includes both the net proceeds from the lottery and accounts for future installment obligations to prize winners.

The **Veterans Land Board Loan Program Funds** receive proceeds from the sale of bonds that are used to administer, originate and service loans from land, housing and home improvement for those qualifying veterans.

The **Texas Department of Criminal Justice Institutional Division** accounts for the proceeds of the institutional division's commissary operations and other miscellaneous revenue.

The **Texas Prepaid Higher Education Tuition Board** offers a program that allows Texas families to lock in the cost of tomorrow's college tuition and required fees at today's prices.



# Combining Statement of Net Assets – Nonmajor Enterprise Funds

August 31, 2009 (Amounts in Thousands)

	Texas Workforce Commission Unemployment Trust Fund Accounts	Texas Department of Housing and Community Affairs	Texas Lottery Commission	Veterans Land Board Loan Program Funds
<b>ASSETS</b>				
Current Assets:				
Cash and Cash Equivalents	\$ 954	\$ 44,575	\$ 123,789	\$
Securities Lending Collateral				100,014
Restricted:				
Cash and Cash Equivalents	35,255	253,434		199,459
Short-Term Investments		17,758	197,687	66,145
Loans and Contracts		11,705		61,193
Receivables:				
Federal	88,393			4,879
Accounts	110,403	1,235	55,192	3,989
Interest and Dividends	442	14,725		13,762
Investment Trades				
Other		65		
Due From Other Funds	5,431			27
Interfund Receivable		153		
Inventories		10	9,782	
Prepaid Items			3,111	
Loans and Contracts		1,940		
Other Current Assets		219		
Total Current Assets	<u>240,878</u>	<u>345,819</u>	<u>389,561</u>	<u>449,468</u>
Noncurrent Assets:				
Restricted:				
Cash and Cash Equivalents				
Investments		1,377,044	1,038,795	216,105
Receivables				
Loans and Contracts		1,246,061		2,000,142
Other				2,284
Loans and Contracts		34,037		
Capital Assets:				
Nondepreciable				4,175
Depreciable		1,196	5,848	78,889
Accumulated Depreciation		(1,069)	(5,090)	(22,318)
Assets Held in Trust				
Deferred Charges		10,971		
Other Noncurrent Assets		450		
Total Noncurrent Assets	<u>0</u>	<u>2,668,690</u>	<u>1,039,553</u>	<u>2,279,277</u>
Total Assets	<u>240,878</u>	<u>3,014,509</u>	<u>1,429,114</u>	<u>2,728,745</u>

Texas Department of Criminal Justice Institutional Division	Texas Prepaid Higher Education Tuition Board	Other Nonmajor Enterprise Funds	Totals
\$	\$ 100,731	\$ 32,474	\$ 302,523
	241,068		341,082
	74,693		562,841
			281,590
			72,898
			93,272
1,641	136	262	172,858
	12,125	31	41,085
	32,532		32,532
	480	2,372	2,917
22,862			28,320
			153
8,325		781	18,898
		252	3,363
	58,209	9,949	70,098
			219
<u>32,828</u>	<u>519,974</u>	<u>46,121</u>	<u>2,024,649</u>
		5,416	5,416
	1,497,712	26	4,129,682
	198,003		198,003
			3,246,203
			2,284
			34,037
283		375	4,833
4,236	2,285	6,225	98,679
(3,828)	(2,275)	(4,418)	(38,998)
		2,763	2,763
			10,971
			450
<u>691</u>	<u>1,695,725</u>	<u>10,387</u>	<u>7,694,323</u>
<u>33,519</u>	<u>2,215,699</u>	<u>56,508</u>	<u>9,718,972</u>

*Concluded on the following page*

# Combining Statement of Net Assets – Nonmajor Enterprise Funds (concluded)

August 31, 2009 (Amounts in Thousands)

	Texas Workforce Commission Unemployment Trust Fund Accounts	Texas Department of Housing and Community Affairs	Texas Lottery Commission	Veterans Land Board Loan Program Funds
<b>LIABILITIES</b>				
Current Liabilities:				
Payables:				
Accounts	\$ 201,590	\$ 984	\$ 27,288	\$ 15,506
Payroll			1,869	
Investment Trades				
Interest		35,927		6,528
Annuities			12,173	
Due To Other Funds			34,409	397
Unearned Revenue	53,487	20,871		115
Obligations/Securities Lending				100,014
Capital Lease Obligations				
Employees' Compensable Leave		739	1,209	
Notes and Loans Payable				
General Obligation Bonds Payable				100,592
Revenue Bonds Payable		28,509		375
Liabilities Payable From Restricted Assets			288,959	
Other Current Liabilities		5,740	1,611	
Total Current Liabilities	<u>255,077</u>	<u>92,770</u>	<u>367,518</u>	<u>223,527</u>
Noncurrent Liabilities:				
Capital Lease Obligations				
Employees' Compensable Leave		221	933	
Liabilities Payable From Restricted Assets			989,522	
Notes and Loans Payable	289,637			
General Obligation Bonds Payable				1,785,189
Revenue Bonds Payable		2,640,350		23,210
Assets Held for Others				
Other Noncurrent Liabilities		118,666		
Total Noncurrent Liabilities	<u>289,637</u>	<u>2,759,237</u>	<u>990,455</u>	<u>1,808,399</u>
Total Liabilities	<u>544,714</u>	<u>2,852,007</u>	<u>1,357,973</u>	<u>2,031,926</u>
<b>NET ASSETS</b>				
Invested in Capital Assets, Net of Related Debt		149	758	37,809
Restricted for:				
Debt Retirement		17,305		
Veterans Land Board Housing Programs				659,010
Other	39,691		5,000	
Unrestricted	<u>(343,527)</u>	<u>145,048</u>	<u>65,383</u>	
Total Net Assets	<u>\$ (303,836)</u>	<u>\$ 162,502</u>	<u>\$ 71,141</u>	<u>\$ 696,819</u>

Texas Department of Criminal Justice Institutional Division	Texas Prepaid Higher Education Tuition Board	Other Nonmajor Enterprise Funds	Totals
\$ 5,716	\$ 1,692	\$ 1,899	\$ 254,675
1,434		1,923	5,226
	113,859		113,859
			42,455
			12,173
	133		34,939
	506	74	75,053
	244,852		344,866
		132	132
1,049	61	646	3,704
		9,332	9,332
			100,592
			28,884
	186,664		475,623
			7,351
<u>8,199</u>	<u>547,767</u>	<u>14,006</u>	<u>1,508,864</u>
		68	68
381	49	407	1,991
	2,263,216		3,252,738
			289,637
			1,785,189
			2,663,560
		2,763	2,763
			118,666
<u>381</u>	<u>2,263,265</u>	<u>3,238</u>	<u>8,114,612</u>
<u>8,580</u>	<u>2,811,032</u>	<u>17,244</u>	<u>9,623,476</u>
690	9	1,053	40,468
			17,305
			659,010
		941	45,632
<u>24,249</u>	<u>(595,342)</u>	<u>37,270</u>	<u>(666,919)</u>
<u>\$ 24,939</u>	<u>\$ (595,333)</u>	<u>\$ 39,264</u>	<u>\$ 95,496</u>

# Combining Statement of Revenues, Expenses and Changes in Fund Net Assets – Nonmajor Enterprise Funds

For the Fiscal Year Ended August 31, 2009 (Amounts in Thousands)

	Texas Workforce Commission Unemployment Trust Fund Accounts	Texas Department of Housing and Community Affairs	Texas Lottery Commission	Veterans Land Board Loan Program Funds
<b>OPERATING REVENUES</b>				
Lottery Collections	\$	\$	\$ 3,720,481	\$
Auxiliary Enterprises – Pledged				
Unemployment Taxes	1,027,897			
Other Sales of Goods and Services				8,696
Other Sales of Goods and Services – Pledged				34,037
Interest and Investment Income		213,685	1	104,211
Federal Revenue	1,601,192			22,813
Other Revenues	142,496	13,350	559	81
Other Revenues - Pledged				
Total Operating Revenues	<u>2,771,585</u>	<u>227,035</u>	<u>3,721,041</u>	<u>169,838</u>
<b>OPERATING EXPENSES</b>				
Cost of Goods Sold				
Salaries and Wages		7,759	17,005	
Payroll Related Costs		1,726	4,017	
Professional Fees and Services		3,178	5,988	59,551
Travel		240	247	5
Materials and Supplies		223	1,832	1,931
Communication and Utilities		93	789	
Repairs and Maintenance		325	479	835
Rentals and Leases		44	5,108	13
Printing and Reproduction		25	13,742	1
Depreciation and Amortization		1,546	285	3,713
Unemployment Benefit Payments	4,908,112			
Bad Debt Expense		1,236	288	
Interest Expense		134,544		103,736
Lottery Fees and Other Costs			289,599	
Lottery Prize Payments			2,299,753	
Employee/Participant Benefit Payments				
Other Expenses		3,935	41,139	4,055
Total Operating Expenses	<u>4,908,112</u>	<u>154,874</u>	<u>2,680,271</u>	<u>173,840</u>
Operating Income (Loss)	<u>(2,136,527)</u>	<u>72,161</u>	<u>1,040,770</u>	<u>(4,002)</u>

Texas Department of Criminal Justice Institutional Division	Texas Prepaid Higher Education Tuition Board	Other Nonmajor Enterprise Funds	Totals
\$ 90,060	\$	\$	\$ 3,720,481
			90,060
	125,222	8,347	1,027,897
			142,265
			34,037
		199	318,096
			1,624,005
430	1,451	21,456	179,823
		29	29
<u>90,490</u>	<u>126,673</u>	<u>30,031</u>	<u>7,136,693</u>
63,991		1,684	65,675
13,501	1,041	10,534	49,840
4,033	222	2,210	12,208
	5,218	4,808	78,743
57	25	76	650
854	127	586	5,553
1	251	509	1,643
197	390	573	2,799
677	38	1,300	7,180
80	23	71	13,942
72	10	820	6,446
			4,908,112
2		25	1,551
			238,280
			289,599
			2,299,753
	334,518		334,518
32	46,943	2,383	98,487
<u>83,497</u>	<u>388,806</u>	<u>25,579</u>	<u>8,414,979</u>
6,993	(262,133)	4,452	(1,278,286)

Concluded on the following page

# Combining Statement of Revenues, Expenses and Changes in Fund Net Assets – Nonmajor Enterprise Funds (concluded)

For the Fiscal Year Ended August 31, 2009 (Amounts in Thousands)

	Texas Workforce Commission Unemployment Trust Fund Accounts	Texas Department of Housing and Community Affairs	Texas Lottery Commission	Veterans Land Board Loan Program Funds
<b>NONOPERATING REVENUES (EXPENSES)</b>				
Federal Revenue	\$	\$	\$	\$ 400
Gifts				6
Interest and Investment Income (Loss)	44,158		6,415	15,414
Loan Premium and Fees on Securities Lending				
Investing Activities Expense				
Interest Expense				(1,457)
Borrower Rebates and Agent Fees				(559)
Gain on Sale of Capital Assets			9	
Settlement of Claims				
Claims and Judgments			(1)	
Total Nonoperating Revenues (Expenses)	<u>44,158</u>	<u>0</u>	<u>6,423</u>	<u>13,804</u>
Income (Loss) Before Transfers	<u>(2,092,369)</u>	<u>72,161</u>	<u>1,047,193</u>	<u>9,802</u>
<b>TRANSFERS</b>				
Transfer In	1,013	4,190		1,906
Transfer Out	(916)		(1,062,154)	(25,042)
Total Transfers	<u>97</u>	<u>4,190</u>	<u>(1,062,154)</u>	<u>(23,136)</u>
Change in Net Assets	<u>(2,092,272)</u>	<u>76,351</u>	<u>(14,961)</u>	<u>(13,334)</u>
Net Assets, September 1, 2008	1,788,436	61,314	120,495	710,153
Restatements		24,837	(34,393)	
Net Assets, September 1, 2008, as Restated	<u>1,788,436</u>	<u>86,151</u>	<u>86,102</u>	<u>710,153</u>
Net Assets, August 31, 2009	<u>\$ (303,836)</u>	<u>\$ 162,502</u>	<u>\$ 71,141</u>	<u>\$ 696,819</u>

Texas Department of Criminal Justice Institutional Division	Texas Prepaid Higher Education Tuition Board	Other Nonmajor Enterprise Funds	Totals
\$	\$	\$ 76	\$ 476 6
	(127,178)	329	(60,862)
	1,243		1,243
	(29)		(29)
		(88)	(1,545)
	(919)		(1,478)
			9
(23)			(23)
			(1)
(23)	(126,883)	317	(62,204)
6,970	(389,016)	4,769	(1,340,490)
4,730		1,795	13,634
(11,137)		(1,638)	(1,100,887)
(6,407)	0	157	(1,087,253)
563	(389,016)	4,926	(2,427,743)
24,376	(206,320)	34,338	2,532,792
	3		(9,553)
24,376	(206,317)	34,338	2,523,239
\$ 24,939	\$ (595,333)	\$ 39,264	\$ 95,496



# Combining Statement of Cash Flows – Nonmajor Enterprise Funds

For the Fiscal Year Ended August 31, 2009 (Amounts in Thousands)

	Texas Workforce Commission Unemployment Trust Fund Accounts	Texas Department of Housing and Community Affairs	Texas Lottery Commission	Veterans Land Board Loan Program Funds
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Receipts from Customers	\$ 976,592	\$	\$ 3,703,714	\$
Proceeds from Research Grants and Contracts	1,519,440			
Proceeds from Gifts				
Proceeds from Loan Programs		83,828		664,690
Proceeds from Other Revenues	160,182	15,793		64,764
Payments to Suppliers for Goods and Services		(6,295)	(348,506)	(62,863)
Payments to Employees		(9,479)	(20,731)	
Payments for Loans Provided		(51,580)		(472,957)
Payments for Unemployment Benefits	(4,741,632)			
Payments for Lottery Prizes			(2,299,753)	
Payments for Other Expenses				
Net Cash Provided (Used) by Operating Activities	<u>(2,085,418)</u>	<u>32,267</u>	<u>1,034,724</u>	<u>193,634</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>				
Proceeds from Debt Issuance		146,571		102,931
Proceeds from Transfers from Other Funds	6,066,206	4,190		
Proceeds from Loan Programs	393,924			
Proceeds from Other Financing Activities			67,594	221,460
Payments of Principal on Debt Issuance	(104,287)	(147,165)		(71,597)
Payments of Interest		(138,661)		(102,954)
Payments of Other Costs on Debt Issuance		(1,330)		
Payments for Transfers to Other Funds	(6,068,664)		(1,077,890)	(238,819)
Payments for Other Uses		(97)	(176,895)	
Net Cash Provided (Used) by Noncapital Financing Activities	<u>287,179</u>	<u>(136,492)</u>	<u>(1,187,191)</u>	<u>(88,979)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Proceeds from State Grants and Contracts				147
Proceeds from Other Financing Activities				868
Payments for Additions to Capital Assets		(41)	(244)	(968)
Payments of Principal on Debt Issuance				(350)
Payments of Interest on Debt Issuance				(1,459)
Payments of Other Costs on Debt Issuance				(661)
Net Cash Used by Capital and Related Financing Activities	<u>0</u>	<u>(41)</u>	<u>(244)</u>	<u>(2,423)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Proceeds from Sale of Investments		357,506	176,896	190,095
Proceeds from Interest and Investment Income	58,594	78,242	1	12,114
Payments to Acquire Investments		(238,613)	(70,278)	(226,919)
Payments for Nonprogram Loans Provided				
Net Cash Provided (Used) by Investing Activities	<u>58,594</u>	<u>197,135</u>	<u>106,619</u>	<u>(24,710)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>(1,739,645)</u>	<u>92,869</u>	<u>(46,092)</u>	<u>77,522</u>
Cash and Cash Equivalents, September 1, 2008	1,775,854	205,140	169,881	121,937
Restatements				
Cash and Cash Equivalents, September 1, 2008, as Restated	<u>1,775,854</u>	<u>205,140</u>	<u>169,881</u>	<u>121,937</u>
Cash and Cash Equivalents, August 31, 2009	<u>\$ 36,209</u>	<u>\$ 298,009</u>	<u>\$ 123,789</u>	<u>\$ 199,459</u>

Texas Department of Criminal Justice Institutional Division	Texas Prepaid Higher Education Tuition Board	Other Nonmajor Enterprise Funds	Totals
\$ 88,953	\$ 125,241	\$ 8,503	\$ 4,903,003
			1,519,440
	15		15
		1,572	750,090
431	344	21,837	263,351
(64,356)	(19,867)	(1,018)	(502,905)
(17,535)	(1,201)	(12,097)	(61,043)
		(1,212)	(525,749)
			(4,741,632)
			(2,299,753)
(1,901)	(123,441)	(11,301)	(136,643)
5,592	(18,909)	6,284	(831,826)
		3,424	252,926
4,730		1,965	6,077,091
			393,924
		60	289,114
			(323,049)
		(75)	(241,690)
		(22)	(1,352)
(10,286)		(1,807)	(7,397,466)
		(17)	(177,009)
(5,556)	0	3,528	(1,127,511)
			147
			868
(9)		(505)	(1,767)
			(350)
			(1,459)
			(661)
(9)	0	(505)	(3,222)
26,730	2,245,511		2,996,738
284	57,799	366	207,400
(27,041)	(2,247,428)		(2,810,279)
		(25)	(25)
(27)	55,882	341	393,834
0	36,973	9,648	(1,568,725)
	138,449	28,242	2,439,503
	2		2
0	138,451	28,242	2,439,505
\$ 0	\$ 175,424	\$ 37,890	\$ 870,780

Concluded on the following page

## Combining Statement of Cash Flows – Nonmajor Enterprise Funds (concluded)

For the Fiscal Year Ended August 31, 2009 (Amounts in Thousands)

	Texas Workforce Commission Unemployment Trust Fund Accounts	Texas Department of Housing and Community Affairs	Texas Lottery Commission	Veterans Land Board Loan Program Funds
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>				
Operating Income (Loss)	\$ (2,136,527)	\$ 72,161	\$ 1,040,770	\$ (4,002)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:				
Depreciation and Amortization		1,546	285	3,713
Bad Debt Expense		1,236	288	
Operating Income (Loss) and Cash Flow Categories Classification Differences		(21,764)		103,742
Changes in Assets and Liabilities:				
(Increase) Decrease in Receivables	(76,843)	398	(17,327)	52,522
(Increase) Decrease in Inventories			(2,456)	
(Increase) Decrease in Loans and Contracts		(1,303)		33,640
(Increase) Decrease in Other Assets		1,183	1,556	127
(Increase) Decrease in Prepaid Expenses				
Increase (Decrease) in Payables	163,024	(2,502)	11,608	3,940
Increase (Decrease) in Due To Other Funds				
Increase (Decrease) in Unearned Revenue	(35,072)	5,719		
Increase (Decrease) in Compensated Absence Liability				
Increase (Decrease) in Other Liabilities		(24,407)		(48)
Total Adjustments	<u>51,109</u>	<u>(39,894)</u>	<u>(6,046)</u>	<u>197,636</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ (2,085,418)</u>	<u>\$ 32,267</u>	<u>\$ 1,034,724</u>	<u>\$ 193,634</u>
<b>NONCASH TRANSACTIONS</b>				
Net Change in Fair Value of Investments	\$	\$ 78,139	\$ 6,415	\$ 4,710
Other	\$	\$	\$	\$ (1,717)

Texas Department of Criminal Justice Institutional Division	Texas Prepaid Higher Education Tuition Board	Other Nonmajor Enterprise Funds	Totals
\$ 6,993	\$ (262,133)	\$ 4,452	\$ (1,278,286)
72	10	820	6,446
2		25	1,551
		20	81,998
(1,107)		500	(41,857)
(1,557)		106	(3,907)
	(81,555)	150	(49,068)
	(15)		2,851
		(88)	(88)
1,189	324,750	204	502,213
	539		539
	(534)	6	(29,881)
	29	9	38
		80	(24,375)
(1,401)	243,224	1,832	446,460
<u>\$ 5,592</u>	<u>\$ (18,909)</u>	<u>\$ 6,284</u>	<u>\$ (831,826)</u>
\$	\$ (181,850)	\$	\$ (92,586)
\$	\$	\$	\$ (1,717)



## Colleges and Universities – Major Enterprise Fund

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There are six university systems and five independent universities in Texas' primary government presented in a single-column as a major fund on the basic financial statements. Schedules have been prepared to report the breakdown of the following universities.

**University of Texas System**  
**Texas A&M University System**  
**Texas Tech University System**  
**University of Houston System**  
**Texas State University System**  
**University of North Texas System**  
**Texas Woman's University**  
**Stephen F. Austin State University**  
**Texas Southern University**  
**Midwestern State University**  
**Texas State Technical College**

# Schedule of Net Assets

## Colleges and Universities – Major Enterprise Fund

August 31, 2009 (Amounts in Thousands)

	University of Texas System*	Texas A & M University System*	Texas Tech University System	University of Houston System	Texas State University System
<b>ASSETS</b>					
Current Assets:					
Cash and Cash Equivalents	\$ 2,121,695	\$ 305,401	\$ 396,440	\$ 180,623	\$ 460,165
Short-Term Investments		144,513		164,321	
Securities Lending Collateral	381,688	73,888			
Restricted:					
Cash and Cash Equivalents	223,030	(13,072)	128,399	23,093	68,073
Short-Term Investments		416,756			297
Loans and Contracts					
Receivables:					
Federal	267,031	79,053	17,948	21,833	17,057
Other Intergovernmental	28,784	6,331			
Accounts	204,747	16,346	11,232	17,773	74,839
Interest and Dividends	39,051	5,465	745	943	735
Gifts	61,477	19,154	27,393	13,507	6,525
Investment Trades	95,927	41,381			
Other	841,652	105,813	38,223	2,578	1,714
Due From Other Funds	256,928	162,573	99,366	89,200	86,565
Due From Component Units			45		
Interfund Receivable		15,210			
Inventories	65,895	26,465	3,718	2,538	4,427
Prepaid Items			41,810	53,627	9,327
Loans and Contracts	47,843	26,715	2,691	15,199	11,057
Other Current Assets	197,895	59,898	361		35,098
Total Current Assets	<u>4,833,643</u>	<u>1,491,890</u>	<u>768,371</u>	<u>585,235</u>	<u>775,879</u>
Noncurrent Assets:					
Restricted:					
Cash and Cash Equivalents	13		85,460	50,629	77,762
Short-Term Investments					
Investments	18,123,778	618,608	233,147		168,952
Receivables					751
Loans and Contracts	89,224	5,102		16,168	591
Other					5,255
Loans and Contracts		20,669	2,949		593
Investments	1,526,358	1,288,921	639,513	524,950	2,158
Interfund Receivable		561,895			
Gifts Receivable	139,724	45,452	46,464	6,284	
Other Receivable					
Capital Assets:					
Nondepreciable	2,148,477	775,971	249,700	150,673	258,627
Depreciable	14,400,633	4,157,356	1,774,401	1,375,923	1,521,948
Accumulated Depreciation	(6,424,547)	(2,349,138)	(893,993)	(746,926)	(813,765)
Assets Held in Trust		362			
Other Noncurrent Assets	44,152	1,271			
Total Noncurrent Assets	<u>30,047,812</u>	<u>5,126,469</u>	<u>2,137,641</u>	<u>1,377,701</u>	<u>1,222,872</u>
Total Assets	<u>34,881,455</u>	<u>6,618,359</u>	<u>2,906,012</u>	<u>1,962,936</u>	<u>1,998,751</u>

University of North Texas System	Texas Woman's University	Stephen F. Austin State University	Texas Southern University	Midwestern State University	Texas State Technical College	Totals
\$ 247,892	\$ 8,826	\$ 44,461	\$ 33,076	\$ 7,182	\$ 14,471	\$ 3,820,232
	47,131	16,016		16,250	9,958	398,189
						455,576
51,815	2,637	29,790	358	(979)	4,324	517,468
	69,452	2,391	5,776		3,575	498,247
				15		15
20,797	5,850	784	6,791	255	10,281	447,680
305		364	15			35,799
37,084	12,329	10,459	18,810	4,414	5,292	413,325
1,470	761	191		79	23	49,463
2,623		260	2,500	1,253		134,692
						137,308
12,040	8,536		18	2,272		1,012,846
80,722	16,124	7,978	29,282	3,712	12,079	844,529
						45
						15,210
2,172	813	533	315	297	2,896	110,069
	915	17,898				123,577
6,568	5,082	2,152				117,307
20,428			13,800	6,747		334,227
<u>483,916</u>	<u>178,456</u>	<u>133,277</u>	<u>110,741</u>	<u>41,497</u>	<u>62,899</u>	<u>9,465,804</u>
					69	213,933
				16,811	510	17,321
62,321	78,742	8,711	29,117	10,074		19,333,450
						751
		5,338		97		116,520
			1,178	1,124		7,557
6,335			2,040			32,586
84,839		25,913				4,092,652
						561,895
2,281						240,205
		1,623			1	1,624
132,036	29,991	45,114	18,419	12,350	6,369	3,827,727
847,609	291,153	345,387	368,255	208,201	179,950	25,470,816
(434,554)	(138,484)	(189,098)	(201,080)	(81,647)	(106,624)	(12,379,856)
						362
336						45,759
<u>701,203</u>	<u>261,402</u>	<u>242,988</u>	<u>217,929</u>	<u>167,010</u>	<u>80,275</u>	<u>41,583,302</u>
<u>1,185,119</u>	<u>439,858</u>	<u>376,265</u>	<u>328,670</u>	<u>208,507</u>	<u>143,174</u>	<u>51,049,106</u>

Concluded on the following page



## Schedule of Net Assets

## Colleges and Universities – Major Enterprise Fund (concluded)

August 31, 2009 (Amounts in Thousands)

	University of Texas System*	Texas A & M University System*	Texas Tech University System	University of Houston System	Texas State University System
<b>LIABILITIES</b>					
Current Liabilities:					
Payables:					
Accounts	\$ 772,907	\$ 160,100	\$ 44,200	\$ 49,125	\$ 35,694
Payroll	378,333	99,552	53,457	35,405	26,139
Other Intergovernmental	17				13,519
Federal	33,274			814	
Investment Trades	205,801	39,467			
Interest					
Due To Other Funds	14,136	2,116		34	76
Interfund Payable	16,168	1,396	259		
Unearned Revenue	1,030,074	364,386	134,252	168,471	254,392
Obligations/Securities Lending	381,688	74,802			
Claims and Judgments	85,404	16,483	1,625	331	
Capital Lease Obligations	1,303	190			155
Employees' Compensable Leave	261,832	7,614	7,065	10,805	11,089
Notes and Loans Payable	950,703	580	44,367	27,300	
General Obligation Bonds Payable					
Revenue Bonds Payable	1,619,984	89,532	26,228	21,936	37,786
Pollution Remediation Obligation	6	10			
Funds Held for Others	16,773	31,481	25,201	14,173	4,201
Other Current Liabilities	168,306	49,016	4,798	3,092	5,100
Total Current Liabilities	<u>5,936,709</u>	<u>936,725</u>	<u>341,452</u>	<u>331,486</u>	<u>388,151</u>
Noncurrent Liabilities:					
Interfund Payable	565,396	4,430			
Claims and Judgments	30,181	5,797	14,629	14	
Capital Lease Obligations	2,802	1,148			266
Employees' Compensable Leave	173,224	93,535	33,537	12,295	8,999
Notes and Loans Payable	28,959	19,883			
General Obligation Bonds Payable					
Revenue Bonds Payable	3,867,085	1,648,816	475,499	580,153	674,406
Assets Held for Others	626,992	60,567			
Net OPEB Obligation	841,025	219,873			
Other Noncurrent Liabilities	19,698	22,627	1,113		1,878
Total Noncurrent Liabilities	<u>6,155,362</u>	<u>2,076,676</u>	<u>524,778</u>	<u>592,462</u>	<u>685,549</u>
Total Liabilities	<u>12,092,071</u>	<u>3,013,401</u>	<u>866,230</u>	<u>923,948</u>	<u>1,073,700</u>
<b>NET ASSETS</b>					
Invested in Capital Assets,					
Net of Related Debt	4,475,108	1,085,269	643,065	364,448	254,100
Restricted for:					
Education	1,452,992	244,467	210,926	102,585	116,814
Debt Retirement	10,652		20,219	4,356	3,400
Capital Projects	113,389	28,706	48,470	3,259	156,520
Funds Held as Permanent Investments:					
Nonexpendable	8,164,509	340,451	565,408	297,802	100,616
Expendable	5,373,147	123,938		62,417	3,128
Unrestricted	<u>3,199,587</u>	<u>1,782,127</u>	<u>551,694</u>	<u>204,121</u>	<u>290,473</u>
Total Net Assets	<u>\$ 22,789,384</u>	<u>\$ 3,604,958</u>	<u>\$ 2,039,782</u>	<u>\$ 1,038,988</u>	<u>\$ 925,051</u>

\* Other postemployment benefits are not legally required to be provided by the state of Texas. The Texas Constitution does not allow the Legislature to impose financial obligations for a period longer than two years. See Note 11 for additional details.

University of North Texas System	Texas Woman's University	Stephen F. Austin State University	Texas Southern University	Midwestern State University	Texas State Technical College	Totals
\$ 19,694	\$ 3,110	\$ 5,122	\$ 5,153	\$ 5,147	\$ 4,011	\$ 1,104,263
33,885	8,149	7,869	6,085	3,589	5,996	658,459
			1,873			15,409
					360	34,448
		2,591	1,887		77	245,268
3	273	465			108	4,555
						17,211
						17,823
131,238	36,379	53,292	45,444	20,339	14,800	2,253,067
						456,490
						103,843
	190	16			422	2,276
1,878	2,163	479	2,401	121	570	306,017
800			338			1,024,088
		870	4,481	1,254	1,505	8,110
12,945	3,941	6,530	6,189	2,606	681	1,828,358
325						341
16,657		13,927		88	1,410	123,911
4,204	2,303	4,524		1,402	561	243,306
<u>221,629</u>	<u>56,508</u>	<u>95,685</u>	<u>73,851</u>	<u>34,546</u>	<u>30,501</u>	<u>8,447,243</u>
						569,826
			810		335	51,766
	1,802	23			4,028	10,069
15,809	1,452	2,971	1,618	1,246	5,225	349,911
3,582			241			52,665
		9,330	23,732	5,515	8,490	47,067
269,375	76,625	143,118	86,813	80,240	10,907	7,913,037
1,006						688,565
						1,060,898
2,145			613	259		48,333
<u>291,917</u>	<u>79,879</u>	<u>155,442</u>	<u>113,827</u>	<u>87,260</u>	<u>28,985</u>	<u>10,792,137</u>
<u>513,546</u>	<u>136,387</u>	<u>251,127</u>	<u>187,678</u>	<u>121,806</u>	<u>59,486</u>	<u>19,239,380</u>
275,098	100,333	60,178	64,348	57,473	56,502	7,435,922
53,807	116,654	13,380	2,892		643	2,315,160
463			363		14	39,467
28,245		499	5,748	1,161	558	386,555
38,837	8,818	6,558	29,117	3,657	579	9,556,352
3,700		1,886		4,772		5,572,988
<u>271,423</u>	<u>77,666</u>	<u>42,637</u>	<u>38,524</u>	<u>19,638</u>	<u>25,392</u>	<u>6,503,282</u>
<u>\$ 671,573</u>	<u>\$ 303,471</u>	<u>\$ 125,138</u>	<u>\$ 140,992</u>	<u>\$ 86,701</u>	<u>\$ 83,688</u>	<u>\$ 31,809,726</u>

# Schedule of Revenues, Expenses and Changes in Fund Net Assets Colleges and Universities – Major Enterprise Fund

For the Fiscal Year Ended August 31, 2009 (Amounts in Thousands)

	University of Texas System*	Texas A & M University System*	Texas Tech University System	University of Houston System	Texas State University System
<b>OPERATING REVENUES</b>					
Tuition Revenue	\$	\$	\$ 10,532	\$ 399,012	\$
Tuition Revenue - Pledged	1,404,680	760,827	268,762		397,315
Discounts and Allowances	(300,366)	(168,999)	(36,662)	(74,735)	(59,232)
Hospital Revenue - Pledged	6,215,283				
Discounts and Allowances	(3,081,846)				
Professional Fees	3,344,256		216,063		
Professional Fees - Pledged	4,500	10,232			
Discounts and Allowances	(2,359,232)				
Auxiliary Enterprises				45,648	
Auxiliary Enterprises - Pledged	381,470	220,681	99,105		102,636
Discounts and Allowances	(9,146)				(8,775)
Other Sales of Goods and Services			3,096	22,364	14,825
Other Sales of Goods and Services - Pledged	373,834	167,107	10,298		
Discounts and Allowances	(521)	(21,499)			
Interest and Investment Income		1,580			
Interest and Investment Income - Pledged					238
Federal Revenue	1,329,567	411,696	45,679	51,408	34,766
State Grant Revenue		1,392	5,786	14,734	5,303
Other Operating Grant Revenue	334,838	509	136,200	21,165	8,795
Other Operating Grant Revenue - Pledged	513,747	235,013	3,374		
Other Revenues	7,457	1		1,806	13,095
Other Revenues - Pledged	66,772	55,139			
Total Operating Revenues	<u>8,225,293</u>	<u>1,673,679</u>	<u>762,233</u>	<u>481,402</u>	<u>508,966</u>
<b>OPERATING EXPENSES</b>					
Cost of Goods Sold	81,304	16,895	10,914	2,604	7,760
Salaries and Wages	5,658,083	1,442,348	644,844	469,300	404,977
Payroll Related Costs	1,293,387	330,253	141,737	96,624	92,016
Professional Fees and Services	487,732	232,692	69,701	42,350	37,901
Travel	121,799	70,109	22,761	14,373	13,498
Materials and Supplies	1,116,376	222,696	88,146	39,120	77,573
Communication and Utilities	337,063	109,205	44,888	45,641	42,712
Repairs and Maintenance	205,094	86,846	34,414	12,699	28,551
Rentals and Leases	122,236	47,380	10,728	13,195	5,962
Printing and Reproduction	22,683	14,516	7,322	5,050	4,086
Depreciation and Amortization	746,866	152,647	68,124	41,771	51,242
Bad Debt Expense	4,953	1,415	1,034		517
Interest Expense		120	35	63	29
Scholarships	309,342	139,861	49,285	58,776	74,215
Claims and Judgments	59,109	3,101	1,514	1,361	1
Net Change in Pension/OPEB Obligations	418,347	79,565			
Other Expenses	708,970	189,474	66,571	42,246	37,477
Total Operating Expenses	<u>11,693,344</u>	<u>3,139,123</u>	<u>1,262,018</u>	<u>885,173</u>	<u>878,517</u>
Operating Loss	<u>(3,468,051)</u>	<u>(1,465,444)</u>	<u>(499,785)</u>	<u>(403,771)</u>	<u>(369,551)</u>

University of North Texas System	Texas Woman's University	Stephen F. Austin State University	Texas Southern University	Midwestern State University	Texas State Technical College	Totals
\$ 87,758	\$ 64,119	\$ 3,562	\$ 59,420	\$ 26,643	\$ 2,489	\$ 567,472
158,566	598	72,089			27,172	3,176,072
(37,603)	(11,427)	(15,364)	(18,770)		(14,904)	(738,062)
						6,215,283
						(3,081,846)
84,964						3,645,283
						14,732
						(2,359,232)
1,047	11,244	1,460			993	60,392
41,944	9,449	33,593	7,782	6,027	12,651	915,338
(172)	(3,491)	(6,546)			(4,385)	(32,515)
24,347		932				65,564
		4,442	95	1,025	4,019	560,820
						(22,020)
						1,580
					203	441
69,063	2,477	20,022	40,848	1,961	4,890	2,012,377
1,564						28,779
10,765		1,558		112	1,640	515,582
	885		1,828			754,847
209	1,624	4	1,388			25,584
				1,352	2	123,265
442,452	75,478	115,752	92,591	37,120	34,770	12,449,736
1,167	220	8,866			3,919	133,649
334,813	80,244	81,874	80,048	35,488	70,166	9,302,185
70,754	17,520	19,535	17,790	8,493	20,374	2,108,483
28,059	2,034	1,694	15,100	3,691	1,051	922,005
9,482	1,524	2,413	2,130	1,319	1,074	260,482
46,449	12,752	14,665	11,411	5,763	11,749	1,646,700
19,488	6,759	12,624	5,803	3,259	7,344	634,786
20,726	4,039	3,194	16,747	1,641	2,740	416,691
6,130	1,067	1,911	2,619	469	1,285	212,982
3,760	349	560	399	207	243	59,175
32,042	10,715	10,014	13,100	6,847	6,213	1,139,581
3,394	448	252	1,980	178		14,171
					7	254
46,926	8,840	13,597	13,155	6,508	6,400	726,905
		(21)				65,065
						497,912
38,718	5,988	6,185	5,109	94	8,166	1,108,998
661,908	152,499	177,363	185,391	73,957	140,731	19,250,024
(219,456)	(77,021)	(61,611)	(92,800)	(36,837)	(105,961)	(6,800,288)

Concluded on the following page

# Schedule of Revenues, Expenses and Changes in Fund Net Assets Colleges and Universities – Major Enterprise Fund (concluded)

For the Fiscal Year Ended August 31, 2009 (Amounts in Thousands)

	University of Texas System*	Texas A & M University System*	Texas Tech University System	University of Houston System	Texas State University System
<b>NONOPERATING REVENUES (EXPENSES)</b>					
Federal Revenue	\$ 189,076	\$ 141,926	\$ 22,496	\$ 56,029	\$ 65,746
Gifts	261,119		63,736	35,518	30,648
Gifts - Pledged	31,423	135,323	11,125		
Land Income		4,461			
Interest and Investment Income (Loss)	(2,742,286)		(70,482)	(169,039)	1,937
Interest and Investment Income (Loss) - Pledged	173,305	(140,791)	10,859		
Investing Activities Expense	(68,952)	(5,333)			(764)
Interest Expense	(158,859)	(51,673)	(21,607)	(22,114)	(28,014)
Borrower Rebates and Agent Fees		(2,593)			
Gain on Sale of Capital Assets					
Settlement of Claims					14,622
Claims and Judgments		(679)			
Other Revenues			3,665	6,300	4,404
Other Revenues - Pledged	41,405	7,165	7,473		
Other Expenses	(7,370)	(55,191)		(21,587)	(9,010)
Total Nonoperating Revenues (Expenses)	<u>(2,281,139)</u>	<u>32,615</u>	<u>27,265</u>	<u>(114,893)</u>	<u>79,569</u>
Loss Before Capital Contributions, Endowments and Transfers	<u>(5,749,190)</u>	<u>(1,432,829)</u>	<u>(472,520)</u>	<u>(518,664)</u>	<u>(289,982)</u>
<b>CAPITAL CONTRIBUTIONS, ENDOWMENTS AND TRANSFERS</b>					
Capital Contributions - Federal	2,185				7
Capital Contributions (Distributions) - Other	64,572	6,996	2,167	(205)	166
Contributions to Permanent and Term Endowments	99,214	5,997	492	6,635	
Transfer In	2,737,188	1,564,958	434,606	370,298	357,586
Transfer Out	(723,852)	(8,211)	(18,102)	(3,937)	(4,309)
Total Capital Contributions, Endowments and Transfers	<u>2,179,307</u>	<u>1,569,740</u>	<u>419,163</u>	<u>372,791</u>	<u>353,450</u>
Change in Net Assets	<u>(3,569,883)</u>	<u>136,911</u>	<u>(53,357)</u>	<u>(145,873)</u>	<u>63,468</u>
Net Assets, September 1, 2008	27,617,660	3,479,626	2,080,492	1,184,423	860,445
Restatements	(1,258,393)	(11,579)	12,647	438	1,138
Net Assets, September 1, 2008, as Restated	<u>26,359,267</u>	<u>3,468,047</u>	<u>2,093,139</u>	<u>1,184,861</u>	<u>861,583</u>
Net Assets, August 31, 2009	<u>\$ 22,789,384</u>	<u>\$ 3,604,958</u>	<u>\$ 2,039,782</u>	<u>\$ 1,038,988</u>	<u>\$ 925,051</u>

\* Other postemployment benefits are not legally required to be provided by the state of Texas. The Texas Constitution does not allow the Legislature to impose financial obligations for a period longer than two years. See Note 11 for additional details.

University of North Texas System	Texas Woman's University	Stephen F. Austin State University	Texas Southern University	Midwestern State University	Texas State Technical College	Totals
\$ 8,002	\$ 11,624	\$ 2,682	\$ 4,543	\$ 5,211	\$ 21,961	\$ 514,069
	7,417	202		4,866	92	406,663
						190,033
						4,461
4,514	4,013	(374)	(1,537)			(2,973,254)
	1,744	1,718		1,193	502	48,530
		(51)	(200)			(75,300)
(12,304)	(3,788)	(5,397)	(5,819)	(1,378)	(1,234)	(312,187)
						(2,593)
	529	71				600
		69				14,691
(758)					(629)	(2,066)
573		10	11,279	15		26,246
	463				2,477	58,983
(177)		(15)			(10,178)	(103,528)
(150)	22,002	(1,085)	8,266	9,907	12,991	(2,204,652)
(219,606)	(55,019)	(62,696)	(84,534)	(26,930)	(92,970)	(9,004,940)
						2,192
1,344		1,422	46	1,889	6,807	85,204
561		124	125	7,256		120,404
267,350	83,019	70,478	101,123	30,828	95,808	6,113,242
(2,202)	(1,783)	(1,818)	(712)	(998)	(1,748)	(767,672)
267,053	81,236	70,206	100,582	38,975	100,867	5,553,370
47,447	26,217	7,510	16,048	12,045	7,897	(3,451,570)
624,847	276,951	117,670	128,934	74,656	75,936	36,521,640
(721)	303	(42)	(3,990)		(145)	(1,260,344)
624,126	277,254	117,628	124,944	74,656	75,791	35,261,296
\$ 671,573	\$ 303,471	\$ 125,138	\$ 140,992	\$ 86,701	\$ 83,688	\$ 31,809,726

## Schedule of Cash Flows Colleges and Universities – Major Enterprise Fund

For the Fiscal Year Ended August 31, 2009 (Amounts in Thousands)

	University of Texas System	Texas A & M University System	Texas Tech University System	University of Houston System	Texas State University System
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Receipts from Customers	\$ 4,139,191	\$ 164,845	\$ 240,851	\$ 22,368	\$ 13,126
Proceeds from Tuition and Fees	1,153,918	581,916	265,810	327,315	342,913
Proceeds from Research Grants and Contracts	2,566,242	888,676	218,100	123,096	52,517
Proceeds from Gifts					5,208
Proceeds from Loan Programs	87,842	6,000	3,990	125,799	13,099
Proceeds from Auxiliaries	382,829	202,595	78,171	45,598	95,241
Proceeds from Other Revenues	486,830	63,007		18,833	78,235
Payments to Suppliers for Goods and Services	(3,647,086)	(1,063,457)	(278,647)	(183,940)	(249,854)
Payments to Employees	(6,991,586)	(1,783,774)	(654,115)	(567,660)	(506,576)
Payments for Loans Provided	(91,826)	(6,919)	(931)	(136,349)	(13,890)
Payments for Other Expenses	(809)	(197,737)	(278,908)	(95,092)	(75,541)
Net Cash Used by Operating Activities	<u>(1,914,455)</u>	<u>(1,144,848)</u>	<u>(405,679)</u>	<u>(320,032)</u>	<u>(245,522)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>					
Proceeds from State Appropriations	1,981,327	982,907	363,713	272,522	293,464
Proceeds from Gifts	288,768	129,803	100,902	55,627	35,039
Proceeds from Endowments	126,853	5,997		9,982	9,774
Proceeds from Transfers from Other Funds		197,926		25,517	3,431
Proceeds from Loan Programs			42,617		27,543
Proceeds from Grant Receipts		157,020		56,029	36,606
Proceeds from Interfund Payables					3,677
Proceeds from Other Financing Activities	183,356	48,404	3,706	4,974	8,708
Payments of Interest					
Payments for Transfers to Other Funds	(160,643)	(7,730)	(5,388)	(69,165)	(18,520)
Payments for Grant Disbursements					(198)
Payments for Other Uses	<u>(20,901)</u>	<u>(28,430)</u>	<u>(42,779)</u>	<u>(30,325)</u>	<u>(22,765)</u>
Net Cash Provided by Noncapital Financing Activities	<u>2,398,760</u>	<u>1,485,897</u>	<u>462,771</u>	<u>325,161</u>	<u>376,759</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>					
Proceeds from Sale of Capital Assets	1,549	639			
Proceeds from Debt Issuance	2,246,422	728,247	192,198	198,203	91,125
Proceeds from State Grants and Contracts		66,840			
Proceeds from Federal Grants and Contracts		866			
Proceeds from Gifts			2,032		
Proceeds from Other Financing Activities	66,341	1,322		51,446	33
Proceeds from Capital Contributions	66,813		49,824	53,332	1,429
Proceeds from Interfund Payables					64,360
Payments for Additions to Capital Assets	(1,630,054)	(507,142)	(122,980)	(196,646)	(115,077)
Payments of Principal on Debt Issuance	(1,382,511)	(392,829)	(121,643)	(35,965)	(75,316)
Payments for Capital Leases		(25)			(92)
Payments of Interest on Debt Issuance	(157,489)	(51,637)	(22,001)	(21,954)	(40,583)
Payments of Other Costs on Debt Issuance	<u>(1,326)</u>	<u>(3,807)</u>	<u>(362)</u>	<u>(42,196)</u>	<u>(1,489)</u>
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(790,255)</u>	<u>(157,526)</u>	<u>(22,932)</u>	<u>6,220</u>	<u>(75,610)</u>

University of North Texas System	Texas Woman's University	Stephen F. Austin State University	Texas Southern University	Midwestern State University	Texas State Technical College	Totals
\$ 103,408	\$	\$	\$	\$	\$	\$
214,343	46,815	62,801	31,110	29,410	4,027	4,687,816
	11,623	32,028	50,489		19,606	3,075,957
					13,130	3,955,901
						5,208
7,155		353		19		244,257
41,609		28,878	7,783	6,653	9,727	899,084
98,440	18,826	5,412	13,612	2,377	2	785,574
(160,593)	(28,744)	(50,393)		(13,747)	(40,047)	(5,716,508)
(408,130)	(99,231)	(102,040)	(99,507)	(44,655)	(92,554)	(11,349,828)
(5,848)		(12,875)		(7,631)		(276,269)
(63,214)	(14,829)		(81,820)		(6,664)	(814,614)
<u>(172,830)</u>	<u>(65,540)</u>	<u>(35,836)</u>	<u>(78,333)</u>	<u>(27,574)</u>	<u>(92,773)</u>	<u>(4,503,422)</u>
212,428	74,445	51,602	90,279	22,097	83,513	4,428,297
6,160		2,884	1,267	4,866	92	625,408
560				7,217		160,383
						226,874
						70,160
				5,211	21,961	276,827
						3,677
1,940	20,154	663		15	168	272,088
(54)					(47)	(101)
(2,731)		(829)		(715)		(265,721)
						(198)
(177)					(10,787)	(156,164)
<u>218,126</u>	<u>94,599</u>	<u>54,320</u>	<u>91,546</u>	<u>38,691</u>	<u>94,900</u>	<u>5,641,530</u>
		71				2,259
47,101	20,400	33,780			1,000	3,558,476
		6,908			462	74,210
						866
				2,510		4,542
		10		318	2,459	121,929
34,448		1,416		3,811	2,415	213,488
						64,360
(64,598)	(22,639)	(35,269)	(8,962)	(36,467)	(7,331)	(2,747,165)
(40,471)	(4,985)	(7,210)	(10,827)	(3,735)	(4,717)	(2,080,209)
	(180)					(297)
(12,900)	(3,788)	(4,991)	(5,862)	(1,035)	(1,193)	(323,433)
(23)				(241)	(19)	(49,463)
<u>(36,443)</u>	<u>(11,192)</u>	<u>(5,285)</u>	<u>(25,651)</u>	<u>(34,839)</u>	<u>(6,924)</u>	<u>(1,160,437)</u>

Concluded on the following page



# Schedule of Cash Flows

## Colleges and Universities – Major Enterprise Fund (concluded)

For the Fiscal Year Ended August 31, 2009 (Amounts in Thousands)

	University of Texas System	Texas A & M University System	Texas Tech University System	University of Houston System	Texas State University System
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Proceeds from Sale of Investments	\$ 17,509,321	\$ 2,634,156	\$ 84,015	\$ 545,006	\$ 603
Proceeds from Interest and Investment Income	506,590	49,761	50,570	43,970	6,685
Payments to Acquire Investments	(17,309,573)	(2,860,189)	(121,729)	(567,485)	(73,175)
Net Cash Provided (Used) by Investing Activities	706,338	(176,272)	12,856	21,491	(65,887)
Net Increase (Decrease) in Cash and Cash Equivalents	400,388	7,251	47,016	32,840	(10,260)
Cash and Cash Equivalents, September 1, 2008	1,944,877	285,078	563,283	221,505	616,260
Restatements	(527)				
Cash and Cash Equivalents, September 1, 2008, as Restated	1,944,350	285,078	563,283	221,505	616,260
Cash and Cash Equivalents, August 31, 2009	<u>\$ 2,344,738</u>	<u>\$ 292,329</u>	<u>\$ 610,299</u>	<u>\$ 254,345</u>	<u>\$ 606,000</u>
<b>RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES</b>					
Operating Loss	\$ (3,468,051)	\$ (1,465,444)	\$ (499,785)	\$ (403,771)	\$ (369,551)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:					
Depreciation and Amortization	746,866	152,647	68,124	41,771	51,242
Bad Debt Expense	195,623	5,872	19	44	442
Operating Loss and Cash Flow Categories Classification Differences	205,644	103,407	28,406	22,560	39,139
Changes in Assets and Liabilities:					
(Increase) Decrease in Receivables	(229,870)	(12,918)	519	(489)	16,277
(Increase) Decrease in Due From Other Funds		(5,253)	665		16,790
(Increase) Decrease in Inventories	3,923	(601)	637	(208)	225
(Increase) Decrease in Notes Receivable			419		(1,706)
(Increase) Decrease in Loans and Contracts	(3,985)	2,052		435	(24)
(Increase) Decrease in Other Assets	33,239	(888)	1,624	(1,691)	1,491
(Increase) Decrease in Prepaid Expenses		(4,669)	818	(14,188)	(9,774)
(Increase) Decrease in State Appropriations					(814)
Increase (Decrease) in Payables	67,713	36,086	(6,523)	14,502	17,340
Increase (Decrease) in Deposits	(3,029)	947			(87)
Increase (Decrease) in Due To Other Funds		(2,829)	37		(295)
Increase (Decrease) in Unearned Revenue	86,540	(43,823)	3,526	16,702	19,961
Increase (Decrease) in Compensated Absence Liability	24,494	9,977	2,442	1,329	1,754
Increase (Decrease) in Benefits Payable	418,347	82,435	(3,556)	2,188	(3,690)
Increase (Decrease) in Other Liabilities	8,091	(1,846)	(3,051)	784	(24,242)
Total Adjustments	<u>1,553,596</u>	<u>320,596</u>	<u>94,106</u>	<u>83,739</u>	<u>124,029</u>
Net Cash Used by Operating Activities	<u>\$ (1,914,455)</u>	<u>\$ (1,144,848)</u>	<u>\$ (405,679)</u>	<u>\$ (320,032)</u>	<u>\$ (245,522)</u>
<b>NONCASH TRANSACTIONS</b>					
Net Change in Fair Value of Investments	\$ (1,333,000)	\$ (195,648)	\$ (46,521)	\$ (122,505)	\$ (5,897)
Donation of Capital Assets	\$ 20,652	\$ 5,830	\$	\$	\$ 6,000
Borrowing Under Capital Lease Purchase	\$ 474	\$	\$	\$	\$ 343
Other	\$ 9,211	\$ 13,247	\$	\$	\$ 24

University of North Texas System	Texas Woman's University	Stephen F. Austin State University	Texas Southern University	Midwestern State University	Texas State Technical College	Totals
\$ 33,531	\$ 39,117	\$ 7,316	\$ 10,138	\$ 49,677	\$ 2,516	\$ 20,915,396
10,728	4,012	2,109	1,114	1,152	729	677,420
(15,314)	(63,069)	(18,589)	(1,224)	(24,968)	(3,439)	(21,058,754)
28,945	(19,940)	(9,164)	10,028	25,861	(194)	534,062
37,798	(2,073)	4,035	(2,410)	2,139	(4,991)	511,733
261,909	13,536	70,216	37,599	4,064	23,855	4,042,182
			(1,755)			(2,282)
261,909	13,536	70,216	35,844	4,064	23,855	4,039,900
<u>\$ 299,707</u>	<u>\$ 11,463</u>	<u>\$ 74,251</u>	<u>\$ 33,434</u>	<u>\$ 6,203</u>	<u>\$ 18,864</u>	<u>\$ 4,551,633</u>
\$ (219,456)	\$ (77,021)	\$ (61,611)	\$ (92,800)	\$ (36,837)	\$ (105,961)	\$ (6,800,288)
32,042	10,715	10,014	13,100	6,847	6,213	1,139,581
3,394	448	252	1,943	178		208,215
14,722	6,792	8,133	9,247	2,306	8,368	448,724
(15,654)	(8,529)	710	97	(2,921)	(446)	(253,224)
	(130)	(95)			(476)	11,501
(101)	69	11	58	14	(693)	3,334
						(1,287)
1,075		374		19		(54)
(3,600)						30,175
(4,277)	78	(3,158)	(3,668)	(1,147)		(39,985)
	(1,649)					(2,463)
6,332	3,387	2,824	(7,287)	2,472	(2,347)	134,499
					61	(2,108)
(3)	(191)	390	(545)		107	(3,329)
12,696	2,591	2,748	7,135	1,523	2,520	112,119
	131	255	351		146	40,879
						495,724
	(2,231)	3,317	(5,964)	(28)	(265)	(25,435)
46,626	11,481	25,775	14,467	9,263	13,188	2,296,866
<u>\$ (172,830)</u>	<u>\$ (65,540)</u>	<u>\$ (35,836)</u>	<u>\$ (78,333)</u>	<u>\$ (27,574)</u>	<u>\$ (92,773)</u>	<u>\$ (4,503,422)</u>
\$ (5,673)	\$ 1,744	\$ (856)	\$ (2,841)	\$ (150)	\$	\$ (1,711,347)
\$	\$	\$	\$	\$ 1,105	\$ 4,392	\$ 37,979
\$	\$	\$	\$	\$	\$ 290	\$ 1,107
\$ 149	\$	\$	\$	\$ 641	\$ 2,255	\$ 25,527





## Section Two (continued)

# Fiduciary Funds

(and similar Component Units)



## Pension and Other Employee Benefit Trust Funds

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### **The Teacher Retirement System Trust Account**

is for the accumulation of resources for pension benefit payments for qualified employees of public education in Texas.

The **S.E.R.S. Trust Account** is for the accumulation of resources for pension benefit payments to qualified state employees or beneficiaries.

The **Law Enforcement and Custodial Officer Supplement Retirement Fund** provides supplemental retirement and death benefits for members of the Employees Retirement System of Texas who have completed 20 or more years of service or have become occupationally disabled or died while serving as commissioned law enforcement officers of a state agency.

The **Judicial Retirement System – Plan Two Trust Fund** accounts for receipt of monies for retirement and death benefits for certain state-paid judges and judicial officers.

The **Fire Fighters’ Relief and Retirement Fund** accounts for the accumulation of resources for pension, death and disability benefits for fire fighters who serve without monetary reward.

The **Judicial Retirement System – Plan One Fund** accounts for appropriations received from the state’s general revenue fund for annuity and refund payments to eligible judicial employees.

### **The Retired School Employees Group Insurance**

**Trust** receives contributions and other funds authorized to be deposited in the fund to pay insurance premiums, to reimburse for claims paid by a non-state entity and to pay administrative expenses. The Teacher Retirement System of Texas, as trustee, administers the fund for public school retirees and their dependents. The public school entities are not considered part of the reporting entity for the state of Texas.

The **State Retiree Health Plan Trust** accounts for the receipt of monies for postemployment health care, life and dental insurance benefits provided under the Group Benefits Program. The Employees Retirement System of Texas, as trustee, administers the fund for retired employees of the state and other non-state entities as specified by the Legislature.

The **Deferred Compensation Trust Fund** receives employee deferrals in accordance with Internal Revenue Code 457, appropriations by the state for the administration of the deferred compensation plan, trust income and fees. The state of Texas is the only employer participating in the plan.

The **State Employee Cafeteria Plan Trust Fund** receives salary reduction payments and makes disbursements for benefits included in a cafeteria plan, other than Employees Uniform Group Insurance Program coverages. The fund also receives appropriations by the state for the administration of the cafeteria plan.

The **Texa\$aver Administrative Trust Fund** receives deferrals, purchases qualified investments and pays expenses associated with administration of the deferred compensation plan.

# Combining Statement of Fiduciary Net Assets – Pension and Other Employee Benefit Trust Funds

August 31, 2009 (Amounts in Thousands)

	Teacher Retirement System Trust Account	S.E.R.S. Trust Account	Law Enforcement and Custodial Officer Supplement Retirement Fund	Judicial Retirement System - Plan Two Trust Fund	Fire Fighters' Relief and Retirement Fund
<b>ASSETS</b>					
Cash and Cash Equivalents	\$ 5,328,286	\$ 26,581	\$ 747	\$ 739	\$ 845
Securities Lending Collateral	21,852,868	3,241,245	107,619	33,972	
Investments:					
U.S. Government	11,518,931	4,603,553	151,967	46,682	
Corporate Equity	24,234,595	7,461,849	249,352	81,039	24,123
Corporate Obligations	2,188,348	1,373,767	45,471	14,147	
Repurchase Agreements	1,405,254				
Foreign Securities	21,682,289	4,537,028	151,613	49,275	13,262
Other	22,301,284	917,672	30,674	9,928	13,792
Receivables:					
Interest and Dividends	245,843	79,711	2,644	807	84
Accounts	129,933	57,502	8	1,281	912
Investment Trades	339,937	162,652	5,426	1,750	
Other	484				
Due From Other Funds	75,947	6,304	527	1,287	
Properties, at Cost, Net of Accumulated Depreciation	30,489	9,480			
Other Assets					
Total Assets	<u>111,334,488</u>	<u>22,477,344</u>	<u>746,048</u>	<u>240,907</u>	<u>53,018</u>
<b>LIABILITIES</b>					
Payables:					
Accounts	\$ 23,376	\$ 17,009	\$ 234	\$ 85	\$ 213
Investment Trades	159,557	99,508	3,304	1,043	
Payroll	113	312			
Annuities	549,796	67			
Due To Other Funds	5,025	18,090	167	50	
Unearned Revenue	21,127	2,705		45	180
Employees' Compensable Leave	5,103	2,267			
Obligations/Securities Lending	21,915,032	3,239,611	107,564	33,954	
Other Liabilities	2,387				
Total Liabilities	<u>22,681,516</u>	<u>3,379,569</u>	<u>111,269</u>	<u>35,177</u>	<u>393</u>
<b>NET ASSETS</b>					
Held in Trust for Pension Benefits and Other Purposes	<u>\$ 88,652,972</u>	<u>\$ 19,097,775</u>	<u>\$ 634,779</u>	<u>\$ 205,730</u>	<u>\$ 52,625</u>

Judicial Retirement System - Plan One Fund	Retired School Employees Group Insurance Trust	State Retiree Health Plan Trust	Deferred Compensation Trust Fund	State Employee Cafeteria Plan Trust Fund	TexaSaver Administrative Trust Fund	Totals
\$	\$ 849,770	\$ 11,468	\$ 1,209	\$ 4,780	\$ 1,604	\$ 6,226,029
						25,235,704
						16,321,133
						32,050,958
						3,621,733
						1,405,254
						26,433,467
		45				23,273,395
	1,248	2	1	7	2	330,349
4	52,314	10,285		6,418		258,657
						509,765
						484
298	26,202	88,828		5	1	199,399
						39,969
				250		250
302	929,534	110,628	1,210	11,460	1,607	135,906,546
\$ 298	\$ 129,226	\$ 108,938	\$ 163	\$ 9,496	\$	\$ 289,038
						263,412
						425
						549,863
		1,173	50	35	35	24,625
		517	2			24,576
	160					7,530
						25,296,161
						2,387
298	129,386	110,628	215	9,531	35	26,458,017
\$ 4	\$ 800,148	\$ 0	\$ 995	\$ 1,929	\$ 1,572	\$ 109,448,529



# Combining Statement of Changes in Fiduciary Net Assets – Pension and Other Employee Benefit Trust Funds

For the Fiscal Year Ended August 31, 2009 (Amounts in Thousands)

	Teacher Retirement System Trust Account	S.E.R.S. Trust Account	Law Enforcement and Custodial Officer Supplement Retirement Fund	Judicial Retirement System - Plan Two Trust Fund	Fire Fighters' Relief and Retirement Fund
<b>ADDITIONS</b>					
Contributions:					
Member Contributions	\$ 2,181,604	\$ 353,299	\$	\$ 4,223	\$ 3,132
State Contributions	1,483,348	363,023	20,657	11,356	
Premium Contributions					
Federal Contributions					
Other Contributions	687,911				
Total Contributions	4,352,863	716,322	20,657	15,579	3,132
Investment Income:					
From Investing Activities:					
Net Depreciation in					
Fair Value of Investments	(15,678,550)	(2,266,536)	(73,300)	(23,153)	(1,080)
Interest and Investment Income (Loss)	1,885,061	683,034	22,610	6,939	(2,044)
Total Investing Income (Loss)	(13,793,489)	(1,583,502)	(50,690)	(16,214)	(3,124)
Less Investing Activities Expense	68,990	34,311	1,103	282	279
Net Income (Loss) from Investing Activities	(13,862,479)	(1,617,813)	(51,793)	(16,496)	(3,403)
From Securities Lending Activities:					
Securities Lending Income	371,869	62,406	2,060	627	
Less Securities Lending Expense:					
Borrower Rebates	93,966	22,000	723	216	
Management Fees	35,048	5,982	198	61	
Net Income from Securities Lending	242,855	34,424	1,139	350	0
Total Net Investment Income (Loss)	(13,619,624)	(1,583,389)	(50,654)	(16,146)	(3,403)
Other Additions:					
Settlement of Claims					12
Other Revenue		194			
Transfer In	43,232	57,363			
Total Other Additions	43,232	57,557	0	0	12
Total Additions	(9,223,529)	(809,510)	(29,997)	(567)	(259)
<b>DEDUCTIONS</b>					
Benefits	6,295,760	1,425,956	38,642	8,023	2,892
Refunds of Contributions	266,695	70,958		206	
Transfer Out	90,987	9,868			
Administrative Expenses	25,745	15,725	413	227	194
Depreciation Expense	1,347	798			
Interest Expense					
Loss on Sale of Properties		8			
Other Expenses	1,218	799	20	13	9
Total Deductions	6,681,752	1,524,112	39,075	8,469	3,095
<b>INCREASE (DECREASE) IN NET ASSETS</b>	<b>(15,905,281)</b>	<b>(2,333,622)</b>	<b>(69,072)</b>	<b>(9,036)</b>	<b>(3,354)</b>
<b>NET ASSETS</b>					
Net Assets, September 1, 2008	104,558,253	21,431,397	703,851	214,766	55,979
Net Assets, August 31, 2009	\$ 88,652,972	\$ 19,097,775	\$ 634,779	\$ 205,730	\$ 52,625

Judicial Retirement System - Plan One Fund	Retired School Employees Group Insurance Trust	State Retiree Health Plan Trust	Deferred Compensation Trust Fund	State Employee Cafeteria Plan Trust Fund	TexaSaver Administrative Trust Fund	Totals
\$	\$	\$	\$	\$ 81,890	\$	\$ 2,624,148
	245,611	447,766				2,571,761
	675,002	114,360				789,362
	61,531	35,783				97,314
				1,354		689,265
0	982,144	597,909	0	83,244	0	6,771,850
						(18,042,619)
	17,482	1,057	124	46	478	2,614,787
0	17,482	1,057	124	46	478	(15,427,832)
		1	2	1	3	104,972
0	17,482	1,056	122	45	475	(15,532,804)
						436,962
						116,905
0	0	0	0	0	0	41,289
0	17,482	1,056	122	45	475	278,768
						(15,254,036)
			7			19
	96	775	145	83	216	1,509
28,171			260			129,026
28,171	96	775	412	83	216	130,554
28,171	999,722	599,740	534	83,372	691	(8,351,632)
28,194	925,497	596,858		80,162		9,401,984
						337,859
	2,865	2,736	633	362	441	100,855
						49,341
						2,145
				67		67
	51	146	22	1,790	17	8
						4,085
28,194	928,413	599,740	655	82,381	458	9,896,344
(23)	71,309	0	(121)	991	233	(18,247,976)
27	728,839		1,116	938	1,339	127,696,505
\$ 4	\$ 800,148	\$ 0	\$ 995	\$ 1,929	\$ 1,572	\$ 109,448,529



## Private-Purpose Trust Funds

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The **Tobacco Settlement Permanent Trust (Political Subdivisions)** holds the portion of the tobacco settlement money designated for the exclusive benefit of other political subdivisions. Other political subdivisions include cities, counties and/or local hospital districts that are responsible for indigent health care. The fund is administered by the Comptroller's office - Treasury Fiscal.

The **Texas Insurance Companies Assets Account – Reserve and Custodial Fund** holds assets in trust for claims associated with insurance company liquidations. Most balances are normally held outside the Treasury. The Department of Insurance administers the fund.

The **Catastrophe Reserve Trust Fund** is a state fund that was created to provide relief to insurance companies within the state in the event of certain catastrophic losses. Certain property insurers authorized to transact property insurance in Texas make payments to the fund.

The **Inmate Trust and Employee Service Option Fund** accounts for offender commissary and medical accounts along with the Texas Department of Criminal Justice employee commissary, laundry and/or barber contributions.

The **Texas Tomorrow Trust Fund** receives money contributed by college saving plan account holders, money acquired from private sources and income from investment of deposits. The fund may be used only to pay costs of program administration and operations, make payments to institutions of higher education or private or independent institutions and make refunds to college saving plan account holders.

**Other Private-Purpose Trust Funds** account for other assets held in a trustee capacity where principal and income benefit individuals, private organizations or other governments.

# Combining Statement of Fiduciary Net Assets – Private-Purpose Trust Funds

August 31, 2009 (Amounts in Thousands)

	Tobacco Settlement Permanent Trust (Political Subdivisions)	Texas Insurance Companies Assets Account - Reserve and Custodial Fund	Catastrophe Reserve Trust Fund*	Inmate Trust and Employee Service Option Fund	Texas Tomorrow Trust Fund	Other Private- Purpose Trust Funds	Totals
<b>ASSETS</b>							
Cash and Cash Equivalents	\$	\$ 213,064	\$	\$ 6,293	\$ 1,556	\$ 40,917	\$ 261,830
Restricted Cash and Cash Equivalents						439	439
Investments:							
U.S. Government				17,703		2,321	20,024
Corporate Equity	344,394					16,474	360,868
Corporate Obligations	78,139					2,909	81,048
Other	1,402,032				208,576	5,676	1,616,284
Receivables:							
Interest and Dividends	4,179	1			55	27	4,262
Accounts						298	298
Investment Trades	4,277				706		4,983
Other					131	1,636	1,767
Properties, at Cost, Net of Accumulated Depreciation						959	959
Other Assets		82,949					82,949
Total Assets	1,833,021	296,014	0	23,996	211,024	71,656	2,435,711
<b>LIABILITIES</b>							
Payables:							
Accounts	\$ 925	\$	\$	\$ 1,654	\$ 248	\$ 13,865	\$ 16,692
Investment Trades	6,778				617		7,395
Interest						32	32
Due To Other Funds						17	17
Unearned Revenue					122	2	124
Funds Held for Others		82,948					82,948
Other Liabilities					391		391
Total Liabilities	7,703	82,948	0	1,654	1,378	13,916	107,599
<b>NET ASSETS</b>							
Net Assets Held in Trust for Individuals, Organizations and Other Governments	1,825,318	213,066		22,342	209,646	57,740	2,328,112
Total Net Assets	<u>\$ 1,825,318</u>	<u>\$ 213,066</u>	<u>\$ 0</u>	<u>\$ 22,342</u>	<u>\$ 209,646</u>	<u>\$ 57,740</u>	<u>\$ 2,328,112</u>

\* This fund has activity on the combining statement of changes in fiduciary net assets – private-purpose trust funds.

# Combining Statement of Changes in Fiduciary Net Assets – Private-Purpose Trust Funds

For the Fiscal Year Ended August 31, 2009 (Amounts in Thousands)

	Tobacco Settlement Permanent Trust (Political Subdivisions)	Texas Insurance Companies Assets Account - Reserve and Custodial Fund	Catastrophe Reserve Trust Fund	Inmate Trust and Employee Service Option Fund	Texas Tomorrow Trust Fund	Other Private- Purpose Trust Funds	Totals
<b>ADDITIONS</b>							
Contributions:							
Federal Contributions	\$	\$	\$	\$	\$	\$	\$
Other Contributions					84,810	4,190	84,810
Total Contributions	0	0	0	0	84,810	4,190	89,000
Investment Income:							
From Investing Activities:							
Net Depreciation in							
Fair Value of Investments	(259,488)				(42,336)	(2,958)	(304,782)
Interest and Investment Income (Loss)	21,908	807	389		(59)	872	23,917
Total Investing Income (Loss)	(237,580)	807	389	0	(42,395)	(2,086)	(280,865)
Less Investing Activities Expense					1,029		1,029
Net Income (Loss) from Investing							
Activities	(237,580)	807	389	0	(43,424)	(2,086)	(281,894)
From Securities Lending Activities:							
Securities Lending Expense:							
Borrower Rebates	114						114
Net Loss from Securities							
Lending	(114)	0	0	0	0	0	(114)
Total Net Investment Income (Loss)	(237,694)	807	389	0	(43,424)	(2,086)	(282,008)
Other Additions:							
Settlement of Claims						3,430	3,430
Other Revenue	133	162,582		122,886	225	2,587	288,413
Transfer In		30					30
Total Other Additions	133	162,612	0	122,886	225	6,017	291,873
Total Additions	(237,561)	163,419	389	122,886	41,611	8,121	98,865
<b>DEDUCTIONS</b>							
Benefits					64,728	614	65,342
Transfer Out						271	271
Intergovernmental Payments	92,304					5,202	97,506
Administrative Expenses	5,322				229	532	6,083
Depreciation Expense						39	39
Settlement of Claims		99,446				3,633	103,079
Interest Expense						5	5
Other Expenses		51,954	369,297	122,784		1,458	545,493
Total Deductions	97,626	151,400	369,297	122,784	64,957	11,754	817,818
<b>INCREASE (DECREASE) IN NET ASSETS</b>	<b>(335,187)</b>	<b>12,019</b>	<b>(368,908)</b>	<b>102</b>	<b>(23,346)</b>	<b>(3,633)</b>	<b>(718,953)</b>
<b>NET ASSETS</b>							
Net Assets, September 1, 2008	2,160,505	201,047	368,908	22,240	232,992	61,012	3,046,704
Restatements						361	361
Net Assets, September 1, 2008, as Restated	2,160,505	201,047	368,908	22,240	232,992	61,373	3,047,065
Net Assets, August 31, 2009	\$ 1,825,318	\$ 213,066	\$ 0	\$ 22,342	\$ 209,646	\$ 57,740	\$ 2,328,112



## Agency Funds

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The **Texas Public Finance Authority Bond Escrow Account** is used to hold funds for various defeased or refunded bonds.

The **Life, Health, Accident and Casualty Insurance Companies Trust Account** holds cash or securities deposited with the state by insurance companies as required by law.

The **Texas Workers' Compensation Self-Insurance Fund** is used to deposit certified self-insurer security deposits. These deposits may be applied to the self-insurer's incurred liabilities for compensation.

The **City, County, Metropolitan Transit Authority (MTA) and Special Purpose District (SPD) Sales Tax Trust Account** is used to record the receipt of local sales and use tax collected by the Comptroller for each city, county, metropolitan transit authority and special purpose district authorizing the collection.

**Other Agency Funds** account for other resources held by the state in an agent capacity for individuals, private organizations or other governments.





# Combining Statement of Fiduciary Net Assets – Agency Funds

August 31, 2009 (Amounts in Thousands)

	Texas Public Finance Authority Bond Escrow Account	Life, Health, Accident and Casualty Insurance Companies Trust Account	Texas Workers' Compensation Self Insurance Fund	City, County, MTA and SPD Sales Tax Trust Account	Other Agency Funds	Totals
<b>ASSETS</b>						
Cash and Cash Equivalents	\$ 4	\$ 298	\$ 9,550	\$ 743,121	\$ 449,342	\$ 1,202,315
Investments:						
U.S. Government	77,854				217	78,071
Corporate Equity					137,281	137,281
Corporate Obligations					114	114
Repurchase Agreements					34,527	34,527
Other					42,268	42,268
Receivables:						
Interest and Dividends	727					727
Accounts					7,183	7,183
Other Intergovernmental					934	934
Other					6	6
Due From Other Funds					167	167
Other Assets		1,133,660	506,863		75,968	1,716,491
Total Assets	<u>\$ 78,585</u>	<u>\$ 1,133,958</u>	<u>\$ 516,413</u>	<u>\$ 743,121</u>	<u>\$ 748,007</u>	<u>\$ 3,220,084</u>
<b>LIABILITIES</b>						
Payables:						
Accounts	\$	\$	\$	\$	\$ 22	\$ 22
Other Intergovernmental				743,121	4,216	747,337
Due To Other Funds					1,660	1,660
Funds Held for Others	78,585	1,133,958	516,413		742,108	2,471,064
Other Liabilities					1	1
Total Liabilities	<u>\$ 78,585</u>	<u>\$ 1,133,958</u>	<u>\$ 516,413</u>	<u>\$ 743,121</u>	<u>\$ 748,007</u>	<u>\$ 3,220,084</u>

# Combining Statement of Changes in Assets and Liabilities – Agency Funds

For the Fiscal Year Ended August 31, 2009 (Amounts in Thousands)

	Beginning Balance September 1, 2008	Additions	Deductions	Ending Balance August 31, 2009
<b>Texas Public Finance Authority Bond Escrow Account</b>				
<b>ASSETS</b>				
Cash and Cash Equivalents	\$ 4	\$	\$ 246,403	\$ 4
Investments	324,257		246,403	77,854
Interest and Dividends Receivable	1,154		427	727
Total Assets	<u>\$ 325,415</u>	<u>\$ 0</u>	<u>\$ 246,830</u>	<u>\$ 78,585</u>
<b>LIABILITIES</b>				
Funds Held for Others	\$ 325,415	\$	\$ 246,830	\$ 78,585
Total Liabilities	<u>\$ 325,415</u>	<u>\$ 0</u>	<u>\$ 246,830</u>	<u>\$ 78,585</u>
<b>Life, Health, Accident and Casualty Insurance Companies Trust Account</b>				
<b>ASSETS</b>				
Cash and Cash Equivalents	\$ 271	\$ 299	\$ 272	\$ 298
Other Assets	1,058,431	310,006	234,777	1,133,660
Total Assets	<u>\$ 1,058,702</u>	<u>\$ 310,305</u>	<u>\$ 235,049</u>	<u>\$ 1,133,958</u>
<b>LIABILITIES</b>				
Funds Held for Others	\$ 1,058,702	\$ 310,305	\$ 235,049	\$ 1,133,958
Total Liabilities	<u>\$ 1,058,702</u>	<u>\$ 310,305</u>	<u>\$ 235,049</u>	<u>\$ 1,133,958</u>
<b>Texas Workers' Compensation Self Insurance Fund</b>				
<b>ASSETS</b>				
Cash and Cash Equivalents	\$ 4,067	\$ 9,810	\$ 4,327	\$ 9,550
Other Assets	714,044		207,181	506,863
Total Assets	<u>\$ 718,111</u>	<u>\$ 9,810</u>	<u>\$ 211,508</u>	<u>\$ 516,413</u>
<b>LIABILITIES</b>				
Accounts Payable	\$	\$ 247	\$ 247	\$
Funds Held for Others	718,111	5,860	207,558	516,413
Total Liabilities	<u>\$ 718,111</u>	<u>\$ 6,107</u>	<u>\$ 207,805</u>	<u>\$ 516,413</u>
<b>City, County, MTA and SPD Sales Tax Trust Account</b>				
<b>ASSETS</b>				
Cash and Cash Equivalents	\$ 782,224	\$ 7,167,429	\$ 7,206,532	\$ 743,121
Total Assets	<u>\$ 782,224</u>	<u>\$ 7,167,429</u>	<u>\$ 7,206,532</u>	<u>\$ 743,121</u>
<b>LIABILITIES</b>				
Payables:				
Accounts	\$	\$ 6,133,000	\$ 6,133,000	\$
Other Intergovernmental	782,224	743,121	782,224	743,121
Funds Held for Others		7,949,653	7,949,653	
Total Liabilities	<u>\$ 782,224</u>	<u>\$ 14,825,774</u>	<u>\$ 14,864,877</u>	<u>\$ 743,121</u>

Concluded on the following page

# Combining Statement of Changes in Assets and Liabilities – Agency Funds (concluded)

For the Fiscal Year Ended August 31, 2009 (Amounts in Thousands)

	Beginning Balance September 1, 2008	Additions	Deductions	Ending Balance August 31, 2009
<b>Other Agency Funds</b>				
<b>ASSETS</b>				
Cash and Cash Equivalents	\$ 368,164	\$ 8,092,834	\$ 8,011,656	\$ 449,342
Investments	234,457	195,854	215,904	214,407
Receivables:				
Interest and Dividends	5	1	6	
Accounts	8,525	148,710	150,052	7,183
Other Intergovernmental	1,338	154	558	934
Other	8	3	5	6
Due From Other Funds	1,332	1,149	2,314	167
Interfund Receivable		3,217	3,217	
Other Assets	102,989	35,575	62,596	75,968
Total Assets	<u>\$ 716,818</u>	<u>\$ 8,477,497</u>	<u>\$ 8,446,308</u>	<u>\$ 748,007</u>
<b>LIABILITIES</b>				
Payables:				
Accounts	\$ 21	\$ 992,644	\$ 992,643	\$ 22
Other Intergovernmental	9,496		5,280	4,216
Due To Other Funds	414	4,196	2,950	1,660
Interfund Payable		4,038	4,038	
Funds Held for Others	706,886	8,288,376	8,253,154	742,108
Other Liabilities	1			1
Total Liabilities	<u>\$ 716,818</u>	<u>\$ 9,289,254</u>	<u>\$ 9,258,065</u>	<u>\$ 748,007</u>
<b>Totals – All Agency Funds</b>				
<b>ASSETS</b>				
Cash and Cash Equivalents	\$ 1,154,730	\$ 15,270,372	\$ 15,222,787	\$ 1,202,315
Investments	558,714	195,854	462,307	292,261
Receivables:				
Interest and Dividends	1,159	1	433	727
Accounts	8,525	148,710	150,052	7,183
Other Intergovernmental	1,338	154	558	934
Other	8	3	5	6
Due From Other Funds	1,332	1,149	2,314	167
Interfund Receivable		3,217	3,217	
Other Assets	1,875,464	345,581	504,554	1,716,491
Total Assets	<u>\$ 3,601,270</u>	<u>\$ 15,965,041</u>	<u>\$ 16,346,227</u>	<u>\$ 3,220,084</u>
<b>LIABILITIES</b>				
Payables:				
Accounts	\$ 22	\$ 7,125,890	\$ 7,125,890	\$ 22
Other Intergovernmental	791,720	743,121	787,504	747,337
Due To Other Funds	414	4,196	2,950	1,660
Interfund Payable		4,038	4,038	
Funds Held for Others	2,809,114	16,554,194	16,892,244	2,471,064
Other Liabilities		1		1
Total Liabilities	<u>\$ 3,601,270</u>	<u>\$ 24,431,440</u>	<u>\$ 24,812,626</u>	<u>\$ 3,220,084</u>





## Section Two (concluded)

# Discretely Presented Component Units



## Discretely Presented Component Units

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There are 18 entities that are considered discretely presented component units of the state. Details regarding each component unit are included in Note 19. A statement of net assets and a statement of activities have been prepared to report the breakdown of the following discretely presented component units.

**Teacher Retirement System**  
**State Bar of Texas**  
**Texas Agricultural Finance Authority**  
**Texas On-Site Wastewater Treatment Research Council**  
**Texas Appraiser Licensing and Certification Board**  
**Texas Prepaid Higher Education Tuition Scholarship Foundation Inc.**  
**Texas Guaranteed Student Loan Corporation**  
**Texas Boll Weevil Eradication Foundation Inc.**  
**Texas Water Resources Finance Authority**  
**Texas Small Business Industrial Development Corporation**  
**Texas Economic Development Corporation**  
**Texas Disaster Relief Fund**  
**Surplus Lines Stamping Office of Texas**  
**Texas Health Reinsurance System**  
**Texas Health Insurance Risk Pool**  
**Texas State Affordable Housing Corporation**  
**Representacion de TAMU en la Republica Mexicana, A.D. (Mexico Center)**  
**Texas Health Services Authority**



## Combining Statement of Net Assets – Component Units

August 31, 2009 (Amounts in Thousands)\*

	Teacher Retirement System	State Bar of Texas	Texas Agricultural Finance Authority	Texas On-Site Wastewater Treatment Research Council	Texas Appraiser Licensing and Certification Board	Texas Prepaid Higher Education Tuition Scholarship Foundation Inc.**
<b>ASSETS</b>						
Current Assets:						
Cash and Cash Equivalents	\$ 487,128	\$ 12,782	\$ 5,567	\$	\$	\$
Short-Term Investments		16,836				
Restricted:						
Cash and Cash Equivalents			17,018			
Loans and Contracts						
Receivables:						
Federal						
Other Intergovernmental						
Accounts	56,755	961				
Interest and Dividends	789		96			
Other						
Due From Primary Government				272	154	
Inventories		771			5	
Prepaid Items		770	14			
Loans and Contracts			5,864			
Other Current Assets			6			
Total Current Assets	<u>544,672</u>	<u>32,120</u>	<u>28,565</u>	<u>272</u>	<u>159</u>	<u>0</u>
Noncurrent Assets:						
Restricted:						
Cash and Cash Equivalents						
Investments						
Loans and Contracts						
Loans and Contracts						
Investments						
Other Receivables						
Capital Assets:						
Nondepreciable		212			169	
Depreciable		21,877			13	
Accumulated Depreciation		(10,119)			(9)	
Other Noncurrent Assets						
Total Noncurrent Assets	<u>0</u>	<u>11,970</u>	<u>0</u>	<u>0</u>	<u>173</u>	<u>0</u>
Total Assets	<u>544,672</u>	<u>44,090</u>	<u>28,565</u>	<u>272</u>	<u>332</u>	<u>0</u>

Continued on the following page

## Combining Statement of Net Assets – Component Units (continued)

August 31, 2009 (Amounts in Thousands)\*

	Teacher Retirement System	State Bar of Texas	Texas Agricultural Finance Authority	Texas On-Site Wastewater Treatment Research Council	Texas Appraiser Licensing and Certification Board	Texas Prepaid Higher Education Tuition Scholarship Foundation Inc.**
<b>LIABILITIES</b>						
Current Liabilities:						
Payables:						
Accounts	\$ 133,964	\$ 2,167	\$	\$ 12	\$ 85	\$
Payroll					61	
Other Intergovernmental						
Federal						
Interest						
Due To Primary Government				45		
Unearned Revenue		7,585				
Capital Lease Obligations		164				
Employees' Compensable Leave	73	456	5		30	
Notes and Loans Payable			24,986			
Revenue Bonds Payable						
Funds Held for Others		432				
Other Current Liabilities		11				
Total Current Liabilities	<u>134,037</u>	<u>10,815</u>	<u>24,991</u>	<u>57</u>	<u>176</u>	<u>0</u>
Noncurrent Liabilities:						
Capital Lease Obligations		111				
Employees' Compensable Leave	41	757	6		9	
Notes and Loans Payable						
Liabilities Payable From Restricted Assets						
Revenue Bonds Payable						
Other Noncurrent Liabilities		59				
Total Noncurrent Liabilities	<u>41</u>	<u>927</u>	<u>6</u>	<u>0</u>	<u>9</u>	<u>0</u>
Total Liabilities	<u>134,078</u>	<u>11,742</u>	<u>24,997</u>	<u>57</u>	<u>185</u>	<u>0</u>
<b>NET ASSETS</b>						
Invested in Capital Assets, Net of Related Debt		11,970				
Restricted for:						
Education						
Other						
Unrestricted	<u>410,594</u>	<u>20,378</u>	<u>3,568</u>	<u>215</u>	<u>147</u>	
Total Net Assets	<u>\$ 410,594</u>	<u>\$ 32,348</u>	<u>\$ 3,568</u>	<u>\$ 215</u>	<u>\$ 147</u>	<u>\$ 0</u>

Continued on the following page

\* Amounts reported as of Aug. 31, 2009, unless otherwise indicated in Note 19.

\*\* This fund has activity on the combining statement of activities – component units.

## Combining Statement of Net Assets – Component Units (continued)

August 31, 2009 (Amounts in Thousands)\*

	Texas Guaranteed Student Loan Corporation	Texas Boll Weevil Eradication Foundation Inc.	Texas Water Resources Finance Authority	Texas Small Business Industrial Development Corporation	Texas Economic Development Corporation	Texas Disaster Relief Fund
<b>ASSETS</b>						
Current Assets:						
Cash and Cash Equivalents	\$ 30,921	\$ 1,196	\$	\$ 13,605	\$ 22	\$ 606
Short-Term Investments	674,274	66,191	19,319		2,170	
Restricted:						
Cash and Cash Equivalents						
Loans and Contracts						
Receivables:						
Federal	65,273					
Other Intergovernmental		8,975				
Accounts		3,299				
Interest and Dividends	4,893		865	132		
Other		95				
Due From Primary Government						
Inventories		150				
Prepaid Items		229		7		
Loans and Contracts			3,572			197
Other Current Assets	1,563					
Total Current Assets	<u>776,924</u>	<u>80,135</u>	<u>23,756</u>	<u>13,744</u>	<u>2,192</u>	<u>803</u>
Noncurrent Assets:						
Restricted:						
Cash and Cash Equivalents						
Investments						
Loans and Contracts						
Loans and Contracts			20,689	47,611		
Investments			9,426			
Other Receivables		3,191				
Capital Assets:						
Nondepreciable	3,315					
Depreciable	55,953	18,464				
Accumulated Depreciation	(20,009)	(12,273)				
Other Noncurrent Assets	72					
Total Noncurrent Assets	<u>39,331</u>	<u>9,382</u>	<u>30,115</u>	<u>47,611</u>	<u>0</u>	<u>0</u>
Total Assets	<u>816,255</u>	<u>89,517</u>	<u>53,871</u>	<u>61,355</u>	<u>2,192</u>	<u>803</u>

Continued on the following page

## Combining Statement of Net Assets – Component Units (continued)

August 31, 2009 (Amounts in Thousands)\*

	Texas Guaranteed Student Loan Corporation	Texas Boll Weevil Eradication Foundation Inc.	Texas Water Resources Finance Authority	Texas Small Business Industrial Development Corporation	Texas Economic Development Corporation	Texas Disaster Relief Fund
<b>LIABILITIES</b>						
Current Liabilities:						
Payables:						
Accounts	\$ 6,787	\$ 174	\$	\$ 218	\$ 50	\$
Payroll		82				
Other Intergovernmental						
Federal	50,026					
Interest			15	16		
Due To Primary Government						
Unearned Revenue						
Capital Lease Obligations						
Employees' Compensable Leave	1,654	1,151				
Notes and Loans Payable	1,784	10,860				
Revenue Bonds Payable			5,195			
Funds Held for Others						
Other Current Liabilities		1,774				
Total Current Liabilities	<u>60,251</u>	<u>14,041</u>	<u>5,210</u>	<u>234</u>	<u>50</u>	<u>0</u>
Noncurrent Liabilities:						
Capital Lease Obligations						
Employees' Compensable Leave	1,180					
Notes and Loans Payable	4,507	88,104				
Liabilities Payable From Restricted Assets	72,249					
Revenue Bonds Payable				60,000		
Other Noncurrent Liabilities	230,505					
Total Noncurrent Liabilities	<u>308,441</u>	<u>88,104</u>	<u>0</u>	<u>60,000</u>	<u>0</u>	<u>0</u>
Total Liabilities	<u>368,692</u>	<u>102,145</u>	<u>5,210</u>	<u>60,234</u>	<u>50</u>	<u>0</u>
<b>NET ASSETS</b>						
Invested in Capital Assets, Net of Related Debt	32,968	2,085				
Restricted for:						
Education	84,778					
Other						
Unrestricted	329,817	(14,713)	48,661	1,121	2,142	803
Total Net Assets	<u>\$ 447,563</u>	<u>\$ (12,628)</u>	<u>\$ 48,661</u>	<u>\$ 1,121</u>	<u>\$ 2,142</u>	<u>\$ 803</u>

Continued on the following page

\* Amounts reported as of Aug. 31, 2009, unless otherwise indicated in Note 19.

## Combining Statement of Net Assets – Component Units (continued)

August 31, 2009 (Amounts in Thousands)\*

	Surplus Lines Stamping Office of Texas	Texas Health Reinsurance System	Texas Health Insurance Risk Pool	Texas State Affordable Housing Corporation	Mexico Center	Texas Health Services Authority**	Totals
<b>ASSETS</b>							
Current Assets:							
Cash and Cash Equivalents	\$ 9,534	\$ 2,871	\$ 18,812	\$ 1,914	\$ 134	\$	\$ 585,092
Short-Term Investments			25,027	3,979			807,796
Restricted:							
Cash and Cash Equivalents				4,759			21,777
Loans and Contracts				2,191			2,191
Receivables:							
Federal							65,273
Other Intergovernmental							8,975
Accounts	229		44,452	301			105,997
Interest and Dividends				551			7,326
Other	40				31		166
Due From Primary Government							426
Inventories							926
Prepaid Items				27	49		1,096
Loans and Contracts							9,633
Other Current Assets							1,569
Total Current Assets	<u>9,803</u>	<u>2,871</u>	<u>88,291</u>	<u>13,722</u>	<u>214</u>	<u>0</u>	<u>1,618,243</u>
Noncurrent Assets:							
Restricted:							
Cash and Cash Equivalents				202			202
Investments				265,914			265,914
Loans and Contracts				12,580			12,580
Loans and Contracts							68,300
Investments							9,426
Other Receivables							3,191
Capital Assets:							
Nondepreciable				232			3,928
Depreciable	4,129		46	1,379	74		101,935
Accumulated Depreciation	(3,105)		(35)	(251)			(45,801)
Other Noncurrent Assets	18		6	5,283			5,379
Total Noncurrent Assets	<u>1,042</u>	<u>0</u>	<u>17</u>	<u>285,339</u>	<u>74</u>	<u>0</u>	<u>425,054</u>
Total Assets	<u>10,845</u>	<u>2,871</u>	<u>88,308</u>	<u>299,061</u>	<u>288</u>	<u>0</u>	<u>2,043,297</u>

Concluded on the following page

## Combining Statement of Net Assets – Component Units (concluded)

August 31, 2009 (Amounts in Thousands)\*

	Surplus Lines Stamping Office of Texas	Texas Health Reinsurance System	Texas Health Insurance Risk Pool	Texas State Affordable Housing Corporation	Mexico Center	Texas Health Services Authority**	Totals
<b>LIABILITIES</b>							
Current Liabilities:							
Payables:							
Accounts	\$ 60	\$ 15	\$ 1,027	\$ 240	\$	\$	\$ 144,799
Payroll							143
Other Intergovernmental					14		14
Federal							50,026
Interest				2,052			2,083
Due To Primary Government							45
Unearned Revenue			50,861				58,446
Capital Lease Obligations							164
Employees' Compensable Leave							3,369
Notes and Loans Payable				40			37,670
Revenue Bonds Payable				4,345			9,540
Funds Held for Others							432
Other Current Liabilities	150	2,856	36,420	190			41,401
Total Current Liabilities	210	2,871	88,308	6,867	14	0	348,132
Noncurrent Liabilities:							
Capital Lease Obligations							111
Employees' Compensable Leave							1,993
Notes and Loans Payable				2,807			95,418
Liabilities Payable From Restricted Assets							72,249
Revenue Bonds Payable				262,766			322,766
Other Noncurrent Liabilities				635			231,199
Total Noncurrent Liabilities	0	0	0	266,208	0	0	723,736
Total Liabilities	210	2,871	88,308	273,075	14	0	1,071,868
<b>NET ASSETS</b>							
Invested in Capital Assets, Net of Related Debt	1,023			477			48,523
Restricted for:							
Education					73		84,851
Other				17,414			17,414
Unrestricted	9,612			8,095	201		820,641
Total Net Assets	\$ 10,635	\$ 0	\$ 0	\$ 25,986	\$ 274	\$ 0	\$ 971,429

\* Amounts reported as of Aug. 31, 2009, unless otherwise indicated in Note 19.

\*\* This fund has activity on the combining statement of activities - component units.

## Combining Statement of Activities – Component Units

For the Fiscal Year Ended August 31, 2009 (Amounts in Thousands)\*

	Teacher Retirement System	State Bar of Texas	Texas Agricultural Finance Authority	Texas On-Site Wastewater Treatment Research Council	Texas Appraiser Licensing and Certification Board	Texas Prepaid Higher Education Tuition Scholarship Foundation Inc.
<b>EXPENSES</b>						
Salaries and Wages	\$ 1,062	\$ 14,746	\$ 78	\$ 2	\$ 525	\$
Payroll Related Costs	259	3,815	33		131	
Professional Fees and Services	533	2,576	72	58	9	
Travel	2	2,532	7	13	12	
Materials and Supplies	9	2,100	1	4	31	
Communications and Utilities	1	609			5	
Repairs and Maintenance		298			3	
Rentals and Leases	80	1,359			41	
Printing and Reproduction	2	2,261			1	
Claims and Judgments		458				
Bad Debt Expense			1			
Cost of Goods Sold		717				
Depreciation and Amortization		595				
Other Financing Fees						
Intergovernmental Payments				156		
Public Assistance Payments						
Employee/Participant Benefit Payments	1,248,402					
Direct Interest Expense			362			
Interest Expense - Other		10				
Other Expenses	13,194	9,277	86	45	39	
Total Expenses	<u>1,263,544</u>	<u>41,353</u>	<u>640</u>	<u>278</u>	<u>797</u>	<u>0</u>
<b>PROGRAM REVENUES</b>						
Charges for Services	1,172,214	37,139	832		27	
Operating Grants and Contributions	235	683				
Total Program Revenues	<u>1,172,449</u>	<u>37,822</u>	<u>832</u>	<u>0</u>	<u>27</u>	<u>0</u>
Net Program Revenues (Expenses)	<u>(91,095)</u>	<u>(3,531)</u>	<u>192</u>	<u>(278)</u>	<u>(770)</u>	<u>0</u>
<b>GENERAL REVENUES</b>						
Unrestricted Investment Earnings	11,607		764			
Other Revenues	13,192	5,288	3	329	768	
Gain on Sale of Capital Assets						
Total General Revenues	<u>24,799</u>	<u>5,288</u>	<u>767</u>	<u>329</u>	<u>768</u>	<u>0</u>
Change in Net Assets	<u>(66,296)</u>	<u>1,757</u>	<u>959</u>	<u>51</u>	<u>(2)</u>	<u>0</u>
Net Assets, September 1, 2008	476,890	30,591	2,609	164	149	3
Restatements						(3)
Net Assets, September 1, 2008, as Restated	<u>476,890</u>	<u>30,591</u>	<u>2,609</u>	<u>164</u>	<u>149</u>	<u>0</u>
Net Assets, August 31, 2009	<u>\$ 410,594</u>	<u>\$ 32,348</u>	<u>\$ 3,568</u>	<u>\$ 215</u>	<u>\$ 147</u>	<u>\$ 0</u>

\* Amounts for the fiscal year ended Aug. 31, 2009, unless otherwise indicated in Note 19.

Texas Guaranteed Student Loan Corporation	Texas Boll Weevil Eradication Foundation Inc.	Texas Water Resources Finance Authority	Texas Small Business Industrial Development Corporation	Texas Economic Development Corporation	Texas Disaster Relief Fund	Surplus Lines Stamping Office of Texas	Texas Health Reinsurance System
\$ 42,846	\$ 18,649	\$ 9	\$	\$ 22	\$	\$ 1,219	\$
12,528		3		2		436	
11,024	723		40	472	1	351	
2,275	276			580		6	
1,675	14,242			249	2	39	
1,435	763			4	1	24	
2,608	891					35	
626	901	1		73		224	
650				90		8	
3,525	2,396					231	
81,179							
10,087		4,913					
		692					
345	4,031		1,132				
25,495	11,625	13	985	320	7,291	251	183
196,298	54,497	5,631	2,157	1,812	7,295	2,824	183
1,746	28,358			51		2,192	131
224,799	26,341	3,266	1,830	1,984	6,753	119	52
226,545	54,699	3,266	1,830	2,035	6,753	2,311	183
30,247	202	(2,365)	(327)	223	(542)	(513)	0
21,654	514		361	8	10		
				5			
1	1,706						
21,655	2,220	0	361	13	10	0	0
51,902	2,422	(2,365)	34	236	(532)	(513)	0
395,661	(15,893)	51,026	1,087	1,906	1,335	11,148	
	843						
395,661	(15,050)	51,026	1,087	1,906	1,335	11,148	0
\$ 447,563	\$ (12,628)	\$ 48,661	\$ 1,121	\$ 2,142	\$ 803	\$ 10,635	\$ 0

Concluded on the following page



## Combining Statement of Activities – Component Units (concluded)

For the Fiscal Year Ended August 31, 2009 (Amounts in Thousands)\*

	Texas Health Insurance Risk Pool	Texas State Affordable Housing Corporation	Mexico Center	Texas Health Services Authority	Totals
<b>EXPENSES</b>					
Salaries and Wages	\$ 268	\$ 1,303	\$	\$	\$ 80,729
Payroll Related Costs					17,207
Professional Fees and Services	13,315	368	164		29,706
Travel	2	59			5,764
Materials and Supplies	32				18,384
Communication and Utilities					2,842
Repairs and Maintenance					3,835
Rentals and Leases	69	109			3,483
Printing and Reproduction					3,012
Claims and Judgments					458
Bad Debt Expense		500			501
Cost of Goods Sold					717
Depreciation and Amortization	5	558			7,310
Other Financing Fees					81,179
Intergovernmental Payments					156
Public Assistance Payments					15,000
Employee/Participant Benefit Payments					1,248,402
Direct Interest Expense					1,054
Interest Expense - Other		13,178			18,696
Other Expenses	262,571	912	304	1	332,592
Total Expenses	<u>276,262</u>	<u>16,987</u>	<u>468</u>	<u>1</u>	<u>1,871,027</u>
<b>PROGRAM REVENUES</b>					
Charges for Services	271,181	1,191	255		1,515,317
Operating Grants and Contributions	5,081	26,921	216	1	298,281
Total Program Revenues	<u>276,262</u>	<u>28,112</u>	<u>471</u>	<u>1</u>	<u>1,813,598</u>
Net Program Revenues (Expenses)	<u>0</u>	<u>11,125</u>	<u>3</u>	<u>0</u>	<u>(57,429)</u>
<b>GENERAL REVENUES</b>					
Unrestricted Investment Earnings					34,918
Other Revenues		352			19,937
Gain on Sale of Capital Assets					1,707
Total General Revenues	<u>0</u>	<u>352</u>	<u>0</u>	<u>0</u>	<u>56,562</u>
Change in Net Assets	<u>0</u>	<u>11,477</u>	<u>3</u>	<u>0</u>	<u>(867)</u>
Net Assets, September 1, 2008		2,341			959,017
Restatements		12,168	271		13,279
Net Assets, September 1, 2008, as Restated	<u>0</u>	<u>14,509</u>	<u>271</u>	<u>0</u>	<u>972,296</u>
Net Assets, August 31, 2009	<u>\$ 0</u>	<u>\$ 25,986</u>	<u>\$ 274</u>	<u>\$ 0</u>	<u>\$ 971,429</u>

\* Amounts for the fiscal year ended Aug. 31, 2009, unless otherwise indicated in Note 19.



## Section Three

# Statistical Section



# State of Texas

## Statistical Section

This section presents detailed information as a context for understanding what the information in the financial statements, note disclosures, required supplementary information and other supplementary information says about the state's overall financial health.

Contents	Pages
<b>Financial Trends Information</b> . . . . .	239 – 243
These schedules contain trend information intended to help the reader understand how the state's financial position has changed over time.	
<b>Revenue Capacity Information</b> . . . . .	244 – 246
These schedules contain information intended to help the reader assess the state's most significant revenue source, state tax collections.	
<b>Debt Capacity Information</b> . . . . .	247 – 249
These schedules present information intended to assist users in understanding and assessing the state's current levels of outstanding debt and the ability to issue additional debt.	
<b>Demographic and Economic Information</b> . . . . .	250 – 252
These schedules provide demographic and economic indicators intended to help the reader understand the socioeconomic environment within which the state's financial activities take place.	
<b>Operating Information</b> . . . . .	253 – 255
These schedules provide contextual information about the state's operations and resources intended to assist readers in using financial statement information to understand and assess the state's economic condition.	

Sources: Unless otherwise noted, the information in these schedules is derived from the Comprehensive Annual Financial Report databases for the relevant years. GASB 34 and 35 were implemented in 2002; schedules presenting government-wide information include information beginning in that year.



## STATE OF TEXAS

## Statistical Section – Financial Trends

## Net Assets by Component

## Last Eight Fiscal Years\*

(Amounts in Millions)

	2002	2003	2004	2005
<b>GOVERNMENTAL ACTIVITIES</b>				
Invested in Capital Assets, Net of Related Debt	\$ 47,322	\$ 49,254	\$ 51,407	\$ 53,815
Restricted	20,089	20,846	22,213	24,110
Unrestricted	2,065	(28)	541	3,753
Total Governmental Activities Net Assets	69,476	70,072	74,161	81,678
<b>BUSINESS-TYPE ACTIVITIES</b>				
Invested in Capital Assets, Net of Related Debt	5,142	5,737	6,464	6,253
Restricted	14,413	15,168	17,628	20,581
Unrestricted	5,841	6,167	5,805	7,076
Total Business-Type Activities Net Assets	25,396	27,072	29,897	33,910
<b>PRIMARY GOVERNMENT</b>				
Invested in Capital Assets, Net of Related Debt	52,464	54,991	57,871	60,068
Restricted	34,502	36,014	39,841	44,691
Unrestricted	7,906	6,139	6,346	10,829
Total Primary Government Net Assets	<u>\$ 94,872</u>	<u>\$ 97,144</u>	<u>\$ 104,058</u>	<u>\$ 115,588</u>
	2006	2007	2008	2009
<b>GOVERNMENTAL ACTIVITIES</b>				
Invested in Capital Assets, Net of Related Debt	\$ 55,473	\$ 56,438	\$ 58,208	\$ 59,719
Restricted	25,993	29,347	31,358	32,664
Unrestricted	8,696	12,565	11,105	3,479
Total Governmental Activities Net Assets	90,162	98,350	100,671	95,862
<b>BUSINESS-TYPE ACTIVITIES</b>				
Invested in Capital Assets, Net of Related Debt	6,871	7,343	7,385	7,655
Restricted	22,812	25,815	24,882	18,744
Unrestricted	8,056	9,741	9,885	8,619
Total Business-Type Activities Net Assets	37,739	42,899	42,152	35,018
<b>PRIMARY GOVERNMENT</b>				
Invested in Capital Assets, Net of Related Debt	62,344	63,781	65,593	67,374
Restricted	48,805	55,162	56,240	51,408
Unrestricted	16,752	22,306	20,990	12,098
Total Primary Government Net Assets	<u>\$ 127,901</u>	<u>\$ 141,249</u>	<u>\$ 142,823</u>	<u>\$ 130,880</u>

\* Due to the changes in the state's fund structure initiated when GASB Statements No. 34 and No. 35 were implemented, the net assets information is available only from 2002.

Source: State of Texas financial statements 2002-09.

# Statistical Section – Financial Trends

## Changes in Net Assets

### Last Eight Fiscal Years\*

(Amounts in Thousands)

	2002	2003	2004	2005	2006	2007	2008	2009
<b>GOVERNMENTAL ACTIVITIES:</b>								
<b>Expenses</b>								
General Government	\$ 1,947,049	\$ 2,026,241	\$ 2,234,369	\$ 2,206,793	\$ 2,681,117	\$ 2,555,309	\$ 2,659,822	\$ 3,052,177
Education	15,831,226	15,935,961	16,250,938	16,293,851	18,025,550	21,313,526	24,986,076	24,952,375
Employee Benefits	14,757	22,644	60,536	50,544	56,718	61,171	86,195	220,272
Teacher Retirement Benefits	1,201,886	2,435,727	2,269,667	2,083,530	1,932,325	2,017,000	1,761,759	1,667,325
Health and Human Services	22,817,118	24,742,714	25,060,588	27,302,426	28,808,315	30,886,484	32,426,046	38,124,180
Public Safety and Corrections	4,170,817	4,207,856	4,030,120	4,086,450	5,084,923	5,035,761	5,020,897	6,026,868
Transportation	3,576,274	3,562,159	3,476,342	3,766,301	4,452,154	4,252,129	4,478,109	4,025,226
Natural Resources and Recreation	736,111	835,139	864,508	1,070,481	961,178	1,217,201	1,451,450	1,673,915
Regulatory Services	273,023	324,567	375,951	349,420	282,067	314,266	398,885	445,938
Indirect Interest on Long-Term Debt	403,784	366,847	338,693	417,854	54,121	229,354	578,059	525,648
Total Expenses	50,972,045	54,459,855	54,961,712	57,627,650	62,338,468	67,882,201	73,847,298	80,713,924
<b>Program Revenues</b>								
<b>Charges for Services:</b>								
General Government	1,378,004	1,378,735	1,695,987	802,588	1,199,924	1,141,278	1,171,997	1,010,388
Education	236,776	485,676	520,621	594,702	626,224	584,971	821,291	474,249
Employee Benefits	383	112	171	97	120	116	107	109
Teacher Retirement Benefits				10	93,694	26,661		33,624
Health and Human Services	710,167	821,773	838,377	1,124,402	1,177,825	2,059,789	1,832,315	1,825,395
Public Safety and Corrections	144,120	148,420	164,959	463,097	441,803	823,602	331,101	354,117
Transportation	988,612	974,627	1,016,809	1,342,073	1,373,339	1,530,669	1,785,835	1,920,123
Natural Resources and Recreation	453,990	437,834	473,608	716,981	570,872	714,687	661,657	574,032
Regulatory Services	63,986	92,875	212,919	534,469	596,705	604,199	635,089	646,959
Operating Grants and Contributions	17,563,832	22,801,211	24,501,850	26,667,982	28,979,226	29,995,409	25,900,072	32,410,929
Capital Grants and Contributions	2,191,470	2,570,634	2,773,764	3,253,051	2,803,006	1,823,686	2,585,507	2,619,631
Total Program Revenues	23,731,340	29,711,897	32,199,065	35,499,452	37,862,738	39,305,067	35,724,971	41,869,556
Total Governmental Activities								
Net Program Expense	(27,240,705)	(24,747,958)	(22,762,647)	(22,128,198)	(24,475,730)	(28,577,134)	(38,122,327)	(38,844,368)
<b>General Revenues</b>								
<b>Taxes:</b>								
Sales and Use	14,249,422	14,349,758	15,564,085	16,260,689	18,475,176	20,230,164	21,640,855	21,026,034
Motor Vehicle and Manufactured Housing	2,891,742	2,795,211	2,665,258	2,897,031	3,046,856	3,338,498	3,384,597	2,568,599
Motor Fuels	2,687,798	2,790,936	2,931,753	2,915,680	3,053,476	3,149,043	3,000,148	3,155,941
Franchise	1,999,005	1,532,820	1,657,141	2,203,578	2,632,780	3,273,050	4,712,183	3,303,170
Oil and Natural Gas Production	640,615	1,531,275	1,918,989	2,409,276	3,441,638	2,692,032	4,036,033	1,335,296
Insurance Occupation	973,279	1,179,553	1,192,829	1,213,627	1,238,846	1,368,340	1,446,828	1,295,330
Cigarette and Tobacco	536,464	583,159	540,404	596,569	547,000	1,325,712	1,454,187	1,564,061
Other	1,454,357	1,405,325	1,426,026	1,435,701	1,558,073	1,694,750	1,744,400	1,680,362
Unrestricted Investment Earnings	383,608	239,198	211,239	327,516	760,207	941,938	1,041,840	178,470
Federal Jobs and Growth Tax Relief Funds		354,535	354,535					
Settlement of Claims	512,579	563,196	523,518	885,975	583,787	538,836	555,476	555,626
Gain on Sale of Capital Assets		6,359	31,189	8,461	2,762	3,942		
Other General Revenues	618,981	787,866	723,157	822,652	1,071,679	1,627,330	1,392,565	1,769,051
Capital Contributions		600	944	107	1,449	309	8,653	1,554
Transfers	(3,171,399)	(3,069,447)	(2,867,137)	(2,966,197)	(3,513,639)	(3,383,910)	(3,909,529)	(4,268,014)
Total General Revenues, Contributions and Transfers	23,776,451	25,050,344	26,873,930	29,010,665	32,900,090	36,800,034	40,508,236	34,165,480
Change in Net Assets – Governmental Activities	(3,464,254)	302,386	4,111,283	6,882,467	8,424,360	8,222,900	2,385,909	(4,678,888)

Concluded on the following page

\* The state did not begin reporting government-wide financial statements until it implemented GASB Statements No. 34 and No. 35 in 2002.

Source: State of Texas financial statements 2002-09.

## Changes in Net Assets (concluded)

Last Eight Fiscal Years\*

(Amounts in Thousands)

	2002	2003	2004	2005	2006	2007	2008	2009
<b>BUSINESS-TYPE ACTIVITIES:</b>								
<b>Expenses</b>								
General Government	\$ 246,183	\$ 235,098	\$ 187,064	\$ 142,142	\$ 162,499	\$ 186,628	\$ 177,012	\$ 180,543
Education	12,584,976	13,340,397	13,538,233	14,716,405	15,982,582	17,165,602	18,619,716	20,135,452
Employee Benefits		517,912	615,692					
Teacher Retirement Benefits				761,240	813,133	909,845		
Health and Human Services	2,712,361	2,964,169	2,203,096	1,540,459	1,253,431	1,204,609	1,467,185	4,908,112
Public Safety and Corrections	69,235	68,419	68,828	71,308	73,775	75,305	80,607	83,498
Transportation	13,011	16,937	22,725	346	16,339	125,910	164,280	220,881
Natural Resources and Recreation	149,767	157,902	146,815	264,707	284,241	283,653	247,018	304,577
Regulatory Services	2,096							
Lottery	2,034,639	2,163,670	2,426,019	2,594,241	2,687,084	2,691,210	2,634,446	2,680,273
Total Expenses	17,812,268	19,464,504	19,208,472	20,090,848	21,273,084	22,642,762	23,390,264	28,513,336
<b>Program Revenues</b>								
<b>Charges for Services:</b>								
General Government	32,475	50,669	44,166	27,947	37,245	42,713	43,106	42,147
Education	5,108,647	5,549,390	5,845,956	6,662,679	7,284,371	8,268,639	8,705,756	9,253,972
Employee Benefits		584,709	758,255					
Teacher Retirement Benefits				823,910	861,648	939,879		
Health and Human Services	1,129,885	1,603,241	1,783,807	1,963,403	1,862,804	1,665,242	1,058,134	1,027,897
Public Safety and Corrections	67,809	71,694	75,094	77,521	79,032	82,779	87,365	90,469
Transportation			39,162	14	13	16,757	48,958	66,375
Natural Resources and Recreation	2,377	3,002	3,911	22,106	33,716	41,034	42,964	46,682
Lottery	2,967,271	3,131,532	3,488,941	3,663,414	3,775,491	3,774,948	3,672,423	3,720,995
Operating Grants and Contributions	3,299,297	6,244,537	6,356,243	8,086,139	7,200,099	9,001,427	4,808,580	3,613,083
Capital Grants and Contributions	51,930	162,991	272,997	211,726	155,541	197,731	245,962	95,889
Total Program Revenues	12,659,691	17,401,765	18,668,532	21,538,859	21,289,960	24,031,149	18,713,248	17,957,509
Total Business-Type Activities								
Net Program Revenue (Expense)	(5,152,577)	(2,062,739)	(539,940)	1,448,011	16,876	1,388,387	(4,677,016)	(10,555,827)
<b>General Revenues</b>								
Unrestricted Investment Earnings	108,831	28,020	193,347	68,423	55,150	245,977	190,974	129,445
Settlement of Claims	2,579	5	4	20	94	283	6	14,691
Gain on Sale of Capital Assets	750			6,431	276	13,363	269	609
Other General Revenue	301,020	329,235	194,474	126,957	91,017	266,722	270,787	156,903
Capital Contributions	112,088	1,318	2,715	133	3,874	1,364		
Contributions to Permanent and Term Endowments	101,473	235,997	235,182	145,919	123,939	184,193	167,692	120,404
Special Items					(38,898)	(318,813)	(150,026)	
Extraordinary Items	603,679	36,532	(13,401)					
Transfers	3,171,399	3,069,447	2,867,137	2,966,197	3,513,639	3,383,910	3,909,529	4,268,014
Total General Revenues, Contributions, Special Items, Extraordinary Items and Transfers	4,401,819	3,700,554	3,479,458	3,314,080	3,749,091	3,776,999	4,389,231	4,690,066
Change in Net Assets – Business-Type Activities	(750,758)	1,637,815	2,939,518	4,762,091	3,765,967	5,165,386	(287,785)	(5,865,761)
Change in Net Assets – Primary Government	<u>\$ (4,215,012)</u>	<u>\$ 1,940,201</u>	<u>\$ 7,050,801</u>	<u>\$ 11,644,558</u>	<u>\$ 12,190,327</u>	<u>\$ 13,388,286</u>	<u>\$ 2,098,124</u>	<u>\$ (10,544,649)</u>



## STATE OF TEXAS

## Statistical Section – Financial Trends

## Fund Balances – Governmental Funds

## Last Eight Fiscal Years\*

(Amounts in Millions)

	2002	2003	2004	2005
<b>GENERAL FUND</b>				
Reserved	\$ 1,430	\$ 1,042	\$ 1,185	\$ 1,752
Unreserved	(369)	(2,326)	(1,562)	286
Total General Fund	<u>\$ 1,061</u>	<u>\$ (1,284)</u>	<u>\$ (377)</u>	<u>\$ 2,038</u>
<b>ALL OTHER GOVERNMENTAL FUNDS</b>				
Reserved	\$ 19,187	\$ 20,485	\$ 21,850	\$ 24,275
Unreserved				
Special Revenue	1,669	1,256	1,309	1,460
Capital Projects	13	14	15	
Permanent	429	458	492	546
Total All Other Governmental Funds	<u>\$ 21,298</u>	<u>\$ 22,213</u>	<u>\$ 23,666</u>	<u>\$ 26,281</u>
	2006	2007	2008	2009
<b>GENERAL FUND</b>				
Reserved	\$ 1,648	\$ 2,138	\$ 2,471	\$ 3,380
Unreserved	5,673	8,698	8,184	5,586
Total General Fund	<u>\$ 7,321</u>	<u>\$ 10,836</u>	<u>\$ 10,655</u>	<u>\$ 8,966</u>
<b>ALL OTHER GOVERNMENTAL FUNDS</b>				
Reserved	\$ 25,999	\$ 29,054	\$ 27,957	\$ 25,586
Unreserved				
Special Revenue	910	1,847	4,953	5,323
Capital Projects	7	(11)	(124)	(111)
Permanent	575	632	564	477
Total All Other Governmental Funds	<u>\$ 27,491</u>	<u>\$ 31,522</u>	<u>\$ 33,350</u>	<u>\$ 31,275</u>

\* Due to the changes in the state's fund structure initiated when GASB Statements No. 34 and No. 35 were implemented, information for fund balances is available only for the line-items presented beginning in 2002.

Source: State of Texas financial statements 2002-09.

## STATE OF TEXAS

## Statistical Section – Financial Trends

## Changes in Fund Balances – Governmental Funds

## Last Ten Fiscal Years\*

(Amounts in Millions)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
<b>REVENUES BY SOURCE</b>										
Tax Collections	\$ 25,226	\$ 27,045	\$ 25,123	\$ 25,939	\$ 27,976	\$ 29,830	\$ 33,867	\$ 36,670	\$ 41,256	\$ 37,654
Federal Funds	16,170	17,319	20,307	23,017	24,382	25,851	28,212	26,967	28,656	35,699
Licenses, Fees and Permits	2,915	2,960	2,815	2,921	3,332	3,590	4,011	4,324	4,522	4,433
Interest and Other Investment Income	1,578	1,705	(815)	2,118	2,435	3,317	3,218	4,574	(368)	(1,957)
Land Income	11	46	179	298	482	544	462	422	650	390
Settlement of Claims	324	403	513	563	523	883	583	539	555	555
Sales of Goods and Services	578	689	962	1,131	1,109	1,445	1,503	2,697	2,063	1,962
Other Revenues	1,227	1,451	1,273	1,464	1,754	1,918	2,159	2,730	2,590	3,192
Total Revenues	48,029	51,618	50,357	57,451	61,993	67,378	74,015	78,923	79,924	81,928
<b>EXPENDITURES BY FUNCTION</b>										
General Government	1,798	1,902	1,846	1,961	2,191	2,151	2,530	2,415	2,628	3,025
Education	14,743	15,057	15,739	15,927	16,220	16,204	18,025	21,317	24,976	24,941
Employee Benefits	8	8	15	12	12	12	13	14	14	13
Teacher Retirement Benefits									1,781	1,729
Health and Human Services	17,878	19,036	22,394	24,690	25,039	27,192	28,761	30,855	32,355	37,988
Public Safety and Corrections	3,554	3,812	4,037	4,067	3,887	3,952	4,939	4,897	4,864	5,802
Transportation	4,612	4,720	3,096	3,065	2,970	3,246	3,909	3,702	3,895	3,399
Natural Resources and Recreation	672	704	713	787	844	1,039	930	1,172	1,420	1,606
Regulatory Services	243	260	270	311	371	345	294	317	393	434
Debt Service:										
Principal	372	346	287	367	211	306	393	437	415	596
Interest	599	761	339	360	335	375	238	370	428	513
Other Financing Fees							2	14	15	15
Capital Outlay	517	389	2,274	2,654	2,830	3,735	3,938	4,368	4,404	3,738
Total Expenditures	44,996	46,995	51,010	54,201	54,910	58,557	63,972	69,878	77,588	83,799
Excess (Deficiency) of Revenues Over (Under) Expenditures	3,033	4,623	(653)	3,250	7,083	8,821	10,043	9,045	2,336	(1,871)
<b>OTHER FINANCING SOURCES (USES)</b>										
Transfer In	4,838	4,988	6,093	5,793	6,984	7,488	7,343	7,765	13,832	9,737
Transfer Out	(8,802)	(9,070)	(10,870)	(10,937)	(11,842)	(12,248)	(12,433)	(12,887)	(17,777)	(14,033)
Bonds and Notes Issued	919	464	232	383	87	1,242	1,440	3,471	2,988	1,940
Bonds Issued for Refunding			8	164	58	208	72	249	515	271
Payment to Escrow for Refunding			(8)	(164)	(69)	(208)	(72)	(263)	(559)	(309)
Premiums on Bonds Issued **								126	180	33
Sale of Capital Assets	16	19	80	21	50	37	17	29	22	16
Increases in Obligations Under Capital Leases	4	1		4			3		1	
Insurance Recoveries							7	2	15	18
Total Other Financing Sources (Uses)	(3,025)	(3,598)	(4,465)	(4,736)	(4,732)	(3,481)	(3,623)	(1,508)	(783)	(2,327)
<b>NET CHANGE IN FUND BALANCES</b>	<b>\$ 8</b>	<b>\$ 1,025</b>	<b>\$ (5,118)</b>	<b>\$ (1,486)</b>	<b>\$ 2,351</b>	<b>\$ 5,340</b>	<b>\$ 6,420</b>	<b>\$ 7,537</b>	<b>\$ 1,553</b>	<b>\$ (4,198)</b>
<b>DEBT SERVICE AS A PERCENTAGE OF NONCAPITAL EXPENDITURES</b>										
	2.2%	2.4%	1.3%	1.4%	1.0%	1.2%	1.1%	1.3%	1.2%	1.4%

\* This table is comprised of the following funds: general, special revenue, debt service, capital projects and permanent.

\*\* Premiums on bonds issued were combined with bonds and notes issued in years prior to 2008.

Source: State of Texas financial statements 2000-09.

## Statistical Section – Revenue Capacity

### Taxable Sales by Industry

For the Fiscal Years 1999 through 2008\* (Amounts in Millions)

NAICS** Industry	2002	2003	2004	2005	2006	2007	2008
Agriculture, Forestry, Fishing, Hunting	\$ 127	\$ 108	\$ 105	\$ 137	\$ 149	\$ 147	\$ 152
Mining, Quarrying, Oil & Gas Extraction	2,862	3,342	3,897	5,329	8,143	11,351	15,950
Utilities	4,801	5,282	5,485	7,543	9,022	9,305	9,881
Construction	6,857	7,003	8,071	9,271	11,583	13,144	14,180
Manufacturing	17,653	16,319	17,543	20,733	24,336	27,021	27,145
Wholesale Trade	14,919	17,324	19,000	21,634	25,044	26,663	28,512
Retail Trade	99,690	102,215	108,078	116,307	127,389	135,050	138,266
Transportation, Warehousing	830	1,208	1,390	1,317	1,805	1,832	2,907
Information	23,884	23,900	24,804	26,579	29,538	30,933	33,305
Finance, Insurance	1,955	1,894	1,819	1,913	2,099	2,183	2,868
Real Estate, Rental, Leasing	5,766	5,569	5,820	6,832	8,102	9,062	9,397
Professional, Scientific, Technical Serv.	5,147	4,812	5,181	6,282	7,069	7,657	8,400
Management of Companies, Enterprises	1,649	1,930	1,972	2,008	802	525	854
Admin Supt Waste Mgmt Remediation Serv.	6,827	7,050	7,554	7,995	8,692	9,434	9,886
Educational Services	281	294	341	379	406	428	337
Health Care, Social Assistance	422	513	547	600	623	743	757
Arts, Entertainment, Recreation	2,316	2,710	2,885	2,875	3,019	3,215	3,481
Accommodation, Food Services	22,931	23,653	25,438	27,313	29,750	31,962	33,667
Other Services (except Public Admin)	5,892	6,083	6,295	6,824	7,452	7,889	8,087
Public Administration	1,881	1,692	2,072	1,565	1,474	1,468	1,641
Nonclassifiable	5	9	8	8	6	4	4
Other	3,263	1,655	648	221	98	57	19
Total Taxable Sales	<u>\$ 229,958</u>	<u>\$ 234,565</u>	<u>\$ 248,953</u>	<u>\$ 273,665</u>	<u>\$ 306,601</u>	<u>\$ 330,073</u>	<u>\$ 349,696</u>
Direct Sales Tax Rate	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%

SIC*** Industry	1999	2000	2001
Agriculture, Forestry, Fishing	\$ 1,182	\$ 1,294	\$ 1,367
Mining, Natural Resources	1,475	2,030	2,815
Construction	6,506	7,370	7,422
Manufacturing	15,975	17,356	16,141
Transportation, Communications, Utilities	25,083	27,652	28,415
Wholesale Trade	18,585	19,609	19,172
Retail Trade	116,118	122,849	127,145
Finance, Insurance, Real Estate	925	1,062	1,226
Services	27,263	29,773	29,742
Public Administration	455	500	513
Nonclassifiable Establishments	59	48	35
Other	476	497	838
Total Taxable Sales	<u>\$ 214,102</u>	<u>\$ 230,040</u>	<u>\$ 234,831</u>
Direct Sales Tax Rate	6.25%	6.25%	6.25%

\* Fiscal 2009 data is not available until mid-year of the the following fiscal year.

\*\* North American Industry Classification System available beginning 2002.

\*\*\* Standard Industrial Classification System available for years prior to 2002.

Note: The amount of sales tax revenue should not be calculated from the table as there are numerous adjustments, allocations and refunds to arrive at actual taxable revenue.

Source: Texas Comptroller of Public Accounts, "Quarterly Sales Tax Reports."

## Statistical Section – Revenue Capacity

### State Tax Collections and Retail Sales

#### Last Ten Years

(Amounts in Millions, Except Per Capita State Tax Collections and Percentage Data)

#### State Tax Collections Per Capita, 2000-2009\*

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Tax Collections	\$ 25,226	\$ 27,045	\$ 25,123	\$ 25,939	\$ 27,976	\$ 29,830	\$ 33,867	\$ 36,670	\$ 41,256	\$ 37,654
Percentage Tax Collection Change From Prior Year	7.3%	7.2%	(7.1)%	3.2%	7.9%	6.6%	13.5%	8.3%	12.5%	(8.7)%
Resident Population	21.0	21.4	21.8	22.1	22.4	22.8	23.4	23.8	24.3	24.8
Percentage Population Change From Prior Year	1.9%	1.9%	1.9%	1.4%	1.8%	1.8%	2.6%	1.7%	1.7%	1.7%
State Tax Collections Per Capita	\$ 1,204	\$ 1,266	\$ 1,155	\$ 1,172	\$ 1,248	\$ 1,308	\$ 1,449	\$ 1,538	\$ 1,696	\$ 1,518

\* This table is comprised of the following funds: general, special revenue, debt service and capital projects.

Source: Tax collections figures taken from the 2000-09 state of Texas financial statements.

Resident population figures are from the U.S. Department of Commerce, Bureau of Census and Bureau of Economic Analysis and have been revised from prior years due to changes in methodology, inflation factors, price indicators and revisions to interim census figures.

## Total Retail Sales 2000–2009

(Amounts in Thousands)

Year	Retail Sales	Percent Change
2000	\$ 298,614	12.7%
2001	\$ 307,070	2.8%
2002*	\$ 291,020	(5.2)%
2003	\$ 306,753	5.4%
2004	\$ 328,497	7.1%
2005	\$ 358,019	9.0%
2006	\$ 375,091	4.8%
2007	\$ 387,019	3.2%
2008	\$ 399,854	3.3%
2009**	\$ 171,443	(10.5)%

\* Retail sales are classified on the basis of the North American Industrial Classification System (NAICS) for 2002-08, as opposed to Standard Industrial Codes (SICs) before that. The percentage change in 2002 is based on SIC data for both 2001-02.

\*\* First quarter of 2009 and the percentage change over the first quarter of 2008.

Source: Texas Comptroller of Public Accounts. Some revisions were made from 2002 onward, based on changes in retailer classifications in the Comptroller's database.

## STATE OF TEXAS

## Statistical Section – Revenue Capacity

## Texas Gross State Product by Industry

## Last Ten Years

(Amounts in Millions of Dollars)

NAICS* Industry	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Agriculture, Forestry and Fishing	\$ 6,470	\$ 6,421	\$ 7,458	\$ 8,104	\$ 9,871	\$ 9,209	\$ 7,382	\$ 10,784	\$ 9,803	\$ 9,422
% Change	(4.2)	(0.8)	16.2	8.7	21.8	(6.7)	(19.8)	46.1	(9.1)	(3.9)
Mining and Natural Resources	45,195	44,256	39,225	57,985	68,203	90,982	104,477	114,005	138,776	139,655
% Change	63.5	(2.1)	(11.4)	47.8	17.6	33.4	14.8	9.1	21.7	0.6
Construction	36,886	40,426	41,878	43,529	45,620	51,664	56,042	55,917	58,996	57,774
% Change	12.4	9.6	3.6	3.9	4.8	13.2	8.5	(0.2)	5.5	(2.1)
Manufacturing	92,989	92,657	94,477	93,276	118,946	125,144	145,966	153,941	159,189	154,361
% Change	1.5	(0.4)	2.0	(1.3)	27.5	5.2	16.6	5.5	3.4	(3.0)
Trade, Transportation and Utilities	155,801	161,456	164,749	170,972	181,483	192,432	211,330	224,236	231,880	231,715
% Change	6.3	3.6	2.0	3.8	6.1	6.0	9.8	6.1	3.4	(0.1)
Information	35,869	37,146	36,537	36,086	38,521	39,474	40,667	43,487	46,447	46,719
% Change	7.7	3.6	(1.6)	(1.2)	6.7	2.5	3.0	6.9	6.8	0.6
Financial Activities	117,213	126,450	128,239	133,606	137,370	145,394	154,966	165,560	171,833	172,350
% Change	8.6	7.9	1.4	4.2	2.8	5.8	6.6	6.8	3.8	0.3
Professional and Business Services	73,215	82,535	83,950	88,830	93,249	104,676	115,423	128,356	141,128	143,624
% Change	5.5	12.7	1.7	5.8	5.0	12.3	10.3	11.2	10.0	1.8
Educational and Health Services	42,363	46,991	51,389	54,829	59,402	62,147	66,278	71,040	76,111	80,408
% Change	7.7	10.9	9.4	6.7	8.3	4.6	6.6	7.2	7.1	5.6
Leisure and Hospitality Services	23,108	24,093	25,496	26,513	27,860	29,662	32,507	34,517	36,864	37,685
% Change	6.2	4.3	5.8	4.0	5.1	6.5	9.6	6.2	6.8	2.2
Other Private Services	17,605	18,181	18,682	19,669	19,877	21,102	22,402	23,930	25,174	25,377
% Change	6.2	3.3	2.8	5.3	1.1	6.2	6.2	6.8	5.2	0.8
Government, Including Schools	80,598	84,798	91,527	96,447	100,697	107,101	113,592	121,512	130,293	134,468
% Change	7.1	5.2	7.9	5.4	4.4	6.4	6.1	7.0	7.2	3.2
TOTAL	\$ 727,313	\$ 765,408	\$ 783,605	\$ 829,846	\$ 901,099	\$ 978,986	\$ 1,071,030	\$ 1,147,286	\$ 1,226,493	\$ 1,233,558
% Change	8.7	5.2	2.4	5.9	8.6	8.6	9.4	7.1	6.9	0.6
TOTAL (In 2000 Chained Dollars)	727,313	745,325	760,588	770,975	806,005	828,417	869,379	907,358	925,492	910,018
% Change	4.0	2.5	2.0	1.4	4.5	2.8	4.9	4.4	2.0	(1.7)

\* North American Industry Classification System.

BEA periodically revises its personal income and gross product data.

Source: U. S. Bureau of Economic Analysis (BEA). BEA numbers for gross product and real gross product are subject to revision.

## STATE OF TEXAS

**Statistical Section – Debt Capacity**  
**Legal Debt Margin Information**  
**Last Ten Fiscal Years**

(Amounts in Thousands, Except Percentage Data)

	2000	2001	2002	2003	2004
Debt Service Limit*	\$ 1,213,667	\$ 1,265,625	\$ 1,308,045	\$ 1,318,449	\$ 1,344,627
Total Net Debt Service Applicable to Limit	<u>492,915</u>	<u>484,448</u>	<u>580,012</u>	<u>626,185</u>	<u>622,433</u>
Legal Debt Service Margin	<u>\$ 720,752</u>	<u>\$ 781,177</u>	<u>\$ 728,033</u>	<u>\$ 692,264</u>	<u>\$ 722,194</u>
Total Net Debt Service Applicable to Limit as a Percentage of Debt Service Limit	40.6%	38.3%	44.3%	47.5%	46.3%
	2005	2006	2007	2008	2009
Debt Service Limit*	\$ 1,405,937	\$ 1,518,628	\$ 1,664,884	\$ 1,773,089	\$ 1,795,118
Total Net Debt Service Applicable to Limit	<u>620,989</u>	<u>545,725</u>	<u>605,518</u>	<u>1,450,498</u>	<u>1,464,078</u>
Legal Debt Service Margin	<u>\$ 784,948</u>	<u>\$ 972,903</u>	<u>\$ 1,059,366</u>	<u>\$ 322,591</u>	<u>\$ 331,040</u>
Total Net Debt Service Applicable to the Limit as a Percentage of Debt Service Limit	44.2%	35.9%	36.4%	81.8%	81.6%

**Legal Debt Service Margin Calculation for Fiscal 2009**

Unrestricted General Revenue fiscal 2007	\$ 36,129,759
Unrestricted General Revenue fiscal 2008	36,866,229
Unrestricted General Revenue fiscal 2009	34,711,114
Debt Service Limit*	1,795,118
Debt Service Applicable to Limit:	
Debt Service on Outstanding Debt Payable from GR	439,592
Plus: Estimated Debt Service on Authorized but Unissued Debt Payable From GR	<u>1,024,486</u>
Total Net Debt Service Applicable to Limit	1,464,078
Legal Debt Service Margin	<u>\$ 331,040</u>

\* Debt service limit – Under state law, the maximum annual debt service in any fiscal year on state debt payable from the general revenue fund may not exceed 5 percent of an amount equal to the average of the unrestricted general revenue fund revenues for the three preceding fiscal years.

Source: Texas Bond Review Board.

## STATE OF TEXAS

# Statistical Section – Debt Capacity

## Ratio of Outstanding Debt by Type

### Last Eight Fiscal Years\*

(Amounts in Millions, Except Percentage Data and Per Capita)

Fiscal Year	Governmental Activities			Business-Type Activities			Total Primary Government	Percentage of Personal Income	Per Capita
	General Obligation Bonds	Revenue Bonds	Notes and Loans	General Obligation Bonds	Revenue Bonds	Notes and Loans			
2002	\$ 3,081	\$ 809	\$ 98	\$ 2,671	\$ 8,264	\$ 1,607	\$ 16,530	2.6%	760
2003	3,185	739	103	2,599	9,277	1,889	17,792	2.7%	804
2004	3,116	679	116	2,719	10,844	1,920	19,394	2.8%	861
2005	3,972	632	262	2,815	11,749	1,614	21,044	2.8%	918
2006	4,479	1,152	331	2,739	12,378	1,741	22,820	2.8%	971
2007	6,757	2,031	216	2,775	12,304	2,029	26,112	2.9%	1,094
2008	8,061	3,445	340	2,708	13,370	2,437	30,361	3.2%	1,247
2009	9,745	3,287	150	2,927	15,488	2,348	33,945	3.7%	1,368

\* Due to the changes in the state's fund structure initiated when GASB Statements No. 34 and No. 35 were implemented, the outstanding debt information is available only beginning in 2002.

Source: State of Texas financial statements 2002-09.

## STATE OF TEXAS

# Statistical Section – Debt Capacity

## Ratios of General Bonded Debt Outstanding

### Last Ten Fiscal Years\*

(Amounts in Millions, Except Percentage Data and General Bonded Debt Per Capita)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Bonded Debt (General Obligation Bonds Only)	\$ 5,143	\$ 5,271	\$ 5,756	\$ 5,784	\$ 5,835	\$ 6,787	\$ 7,218	\$ 9,532	\$ 10,768	\$ 12,672
Percentage Bonded Debt Change From Prior Year	4.5%	2.5%	9.2%	0.5%	0.9%	16.3%	6.4%	32.1%	13.0%	17.7%
Tax Collections	25,226	27,045	25,123	25,939	27,976	29,830	33,867	36,670	41,256	37,654
Percentage Bonded Debt to Tax Collections	20.4%	19.5%	22.9%	22.3%	20.9%	22.8%	21.3%	26.0%	26.1%	33.7%
Resident Population	21.0	21.4	21.8	22.1	22.5	22.8	23.4	23.9	24.3	24.8
General Bonded Debt Per Capita	\$ 245	\$ 247	\$ 265	\$ 262	\$ 259	\$ 298	\$ 308	\$ 399	\$ 443	\$ 511

\* Historical data may reflect a variety of changes in methodology, inflation factors, price indicators and revisions to interim census figures made by the U.S. Bureau of Economic Analysis.

Source: Bonded debt and tax collections amounts are taken from the 2000-09 state of Texas financial statements. Tax collections from 2000-09 state of Texas financial statements. Resident population figures are from the U.S. Department of Commerce, Bureau of Census and Bureau of Economic Analysis.

## STATE OF TEXAS

# Statistical Section – Debt Capacity

## Pledged Revenue Bond Coverage

### Last Eight Fiscal Years\*

(Amounts in Thousands, Except Ratio Data)

	2002	2003	2004	2005	2006	2007	2008	2009
<b>GOVERNMENTAL ACTIVITIES</b>								
Pledged Revenue Bond Amount	\$ 93,796	\$ 93,942	\$ 101,178	\$ 150,119	\$ 81,011	\$ 5,765,826	\$ 6,748,490	\$ 6,640,110
Operating Expenditures	2,257	11,772	2,525	15,540	1,452	6,881,279	7,447,496	7,233,759
Net Available Revenue	<u>\$ 91,539</u>	<u>\$ 82,170</u>	<u>\$ 98,653</u>	<u>\$ 134,579</u>	<u>\$ 79,559</u>	<u>\$ (1,115,453)</u>	<u>\$ (699,006)</u>	<u>\$ (593,649)</u>
Debt Service –								
Principal	\$ 70,230	\$ 74,106	\$ 77,058	\$ 84,087	\$ 86,056	\$ 104,077	\$ 112,250	\$ 156,490
Interest	41,996	37,478	33,314	26,115	25,764	66,822	118,203	152,025
Total Debt Service	<u>\$ 112,226</u>	<u>\$ 111,584</u>	<u>\$ 110,372</u>	<u>\$ 110,202</u>	<u>\$ 111,820</u>	<u>\$ 170,899</u>	<u>\$ 230,453</u>	<u>\$ 308,515</u>
Coverage Ratio	0.8	0.7	0.9	1.2	0.7	(6.5)	(3.0)	(1.9)
<b>BUSINESS-TYPE ACTIVITIES</b>								
Pledged Revenue Bond Amount	\$ 7,236,922	\$ 6,401,630	\$ 7,049,189	\$ 8,369,686	\$ 9,088,841	\$ 9,869,477	\$ 10,225,735	\$ 10,700,325
Operating Expenditures	207,852	536,191	885,294	839,699	364,043	1,457,567	11,698,563	8,481,872
Net Available Revenue	<u>\$ 7,029,070</u>	<u>\$ 5,865,439</u>	<u>\$ 6,163,895</u>	<u>\$ 7,529,987</u>	<u>\$ 8,724,798</u>	<u>\$ 8,411,910</u>	<u>\$ (1,472,828)</u>	<u>\$ 2,218,453</u>
Debt Service –								
Principal	\$ 242,174	\$ 490,032	\$ 440,036	\$ 532,128	\$ 623,346	\$ 683,150	\$ 420,487	\$ 455,540
Interest	355,997	371,983	492,366	503,958	537,104	560,359	558,666	620,323
Total Debt Service	<u>\$ 598,171</u>	<u>\$ 862,015</u>	<u>\$ 932,402</u>	<u>\$ 1,036,086</u>	<u>\$ 1,160,450</u>	<u>\$ 1,243,509</u>	<u>\$ 979,153</u>	<u>\$ 1,075,863</u>
Coverage Ratio	11.8	6.8	6.6	7.3	7.5	6.8	(1.5)	2.1
<b>COMPONENT UNITS**</b>								
Pledged Revenue Bond Amount	\$ 25,863	\$ 16,215	\$ 11,781	\$ 13,524	\$ 13,704	\$ 13,034	\$ 10,971	\$ 62,397
Operating Expenditures	625		349	225	264	91	552	1,051
Net Available Revenue	<u>\$ 25,238</u>	<u>\$ 16,215</u>	<u>\$ 11,432</u>	<u>\$ 13,299</u>	<u>\$ 13,440</u>	<u>\$ 12,943</u>	<u>\$ 10,419</u>	<u>\$ 61,346</u>
Debt Service –								
Principal	\$ 13,000	\$ 12,130	\$ 11,050	\$	\$ 5,840	\$ 5,485	\$ 5,090	\$ 78,793
Interest	6,875	5,463	2,937	3,628	4,940	5,051	3,610	16,926
Total Debt Service	<u>\$ 19,875</u>	<u>\$ 17,593</u>	<u>\$ 13,987</u>	<u>\$ 3,628</u>	<u>\$ 10,780</u>	<u>\$ 10,536</u>	<u>\$ 8,700</u>	<u>\$ 95,719</u>
Coverage Ratio	1.3	0.9	0.8	3.7	1.2	1.2	1.2	0.6
Total Combined Coverage Ratio	9.8	6.0	5.9	6.7	6.9	5.1	(1.8)	1.1

\* Due to the changes in the state's fund structure initiated when GASB Statements No. 34 and No. 35 were implemented, the pledged revenue bond information is available only beginning in 2002.

\*\* Component Units have been revised from 2003 to 2007 to reflect revised reporting of debt coverage in 2008 and 2009.

Note: This bond data includes operating revenues, interest earned on investments, other pledged revenues and other sources. Operating expenditures include capital outlay expenditures.

Source: State of Texas annual financial statements and bond reporting system 2002-09.



## STATE OF TEXAS

## Statistical Section – Demographic and Economic Information

## Texas Nonfarm Employment Detail: Number of Jobs

Calendar Years 2000-2009

Employment by Industry	2000	2001	2002	2003	2004
<b>GOODS-PRODUCING</b>					
Natural Resources and Mining	143,217	152,983	145,325	146,617	152,983
Construction	567,192	580,550	568,075	552,008	544,850
Manufacturing					
Durables	671,636	647,760	591,919	560,281	559,849
Nondurables	395,639	378,323	356,139	339,069	330,501
Total, Goods-Producing	<u>1,777,684</u>	<u>1,759,616</u>	<u>1,661,458</u>	<u>1,597,975</u>	<u>1,588,183</u>
<b>SERVICE-PROVIDING</b>					
Trade, Transportation and Utilities					
Wholesale Trade	467,887	473,191	463,186	458,336	463,097
Retail Trade	1,103,833	1,107,942	1,093,350	1,069,341	1,083,966
Transportation and Warehousing	356,290	354,100	340,688	339,769	350,917
Utilities	48,498	50,767	51,468	48,404	47,303
Information	272,042	269,775	249,300	233,708	224,908
Financial Activities					
Finance and Insurance	398,675	405,265	410,401	417,410	425,727
Real Estate, Rental and Leasing	169,217	172,601	169,649	168,399	169,998
Professional and Business Services					
Professional, Scientific and Technical	461,051	471,348	455,584	451,338	468,039
Management, Administrative and Support	647,157	633,635	610,766	607,387	632,578
Educational and Health Services					
Educational Services, Private	122,031	129,774	131,278	132,220	136,188
Health Care and Social Assistance	880,627	911,226	951,114	986,589	1,013,312
Leisure and Hospitality	819,075	836,025	847,492	859,658	885,650
Other Services	346,192	353,333	354,875	353,983	351,900
Government					
Federal Civilian	186,123	178,394	179,009	180,354	180,579
State	327,531	334,199	342,307	342,109	340,359
Local	1,048,296	1,073,640	1,104,626	1,123,629	1,134,645
Total, Service-Providing	<u>7,654,525</u>	<u>7,755,215</u>	<u>7,755,093</u>	<u>7,772,634</u>	<u>7,909,166</u>
Total Nonfarm Employment	<u>9,432,209</u>	<u>9,514,831</u>	<u>9,416,551</u>	<u>9,370,609</u>	<u>9,497,349</u>

Source: Texas Workforce Commission and the Comptroller of Public Accounts.

\*Note: Data for 2008 and 2009 are subject to annual benchmark revisions.

Due to confidentiality issues, the names of the ten largest employers are not available. This table provides alternative information regarding the number of jobs by industry in the state of Texas.

2005	2006	2007	2008*	2009*
165,983	185,875	207,642	230,650	214,133
567,417	605,892	648,050	671,408	595,217
570,243	599,842	613,184	607,728	552,829
326,549	324,099	320,949	315,805	297,079
<u>1,630,192</u>	<u>1,715,708</u>	<u>1,789,825</u>	<u>1,825,591</u>	<u>1,659,258</u>
477,306	497,881	518,983	530,909	494,160
1,109,384	1,132,164	1,161,758	1,178,625	1,159,500
361,475	374,796	387,307	391,168	363,970
45,711	44,334	45,535	47,623	48,770
223,150	221,667	220,983	217,008	204,208
436,646	451,411	461,759	462,777	461,661
173,246	177,122	182,216	186,048	183,981
493,302	522,654	558,165	586,431	567,699
668,315	718,362	744,085	753,894	716,909
140,579	143,056	146,796	149,655	149,901
1,043,096	1,072,594	1,107,045	1,143,128	1,200,274
907,592	941,342	980,225	1,006,992	1,010,942
346,508	346,483	355,317	360,642	360,500
181,930	185,359	186,338	190,825	195,800
349,360	353,621	359,352	368,650	382,995
1,152,793	1,167,812	1,189,302	1,217,367	1,249,897
<u>8,110,393</u>	<u>8,350,658</u>	<u>8,605,166</u>	<u>8,791,742</u>	<u>8,751,167</u>
<u>9,740,585</u>	<u>10,066,366</u>	<u>10,394,991</u>	<u>10,617,333</u>	<u>10,410,425</u>

# STATE OF TEXAS

## Statistical Section – Demographic and Economic Information Texas and U.S. Selected Statistics Last Ten Years

### Texas and U.S. Population, Total Personal Income and Per Capita Income Last Ten Years

Year	Population (Thousands)				Total Personal Income (Millions)				Per Capita Income			
	Texas	Percent Change	U.S.	Percent Change	Texas	Percent Change	U.S.	Percent Change	Texas	Percent Change	U.S.	Percent Change
2000	20,946	1.9%	282,217	1.1%	597,041	10.0%	8,422,074	8.2%	28,504	8.0%	29,843	7.0%
2001	21,334	1.9%	285,226	1.1%	622,219	4.2%	8,716,992	3.5%	29,166	2.3%	30,562	2.4%
2002	21,713	1.8%	287,884	0.9%	628,277	1.0%	8,872,871	1.8%	28,935	(0.8)%	30,821	0.8%
2003	22,062	1.6%	290,449	0.9%	652,610	3.9%	9,150,320	3.1%	29,581	2.2%	31,504	2.2%
2004	22,425	1.6%	293,191	0.9%	696,800	6.8%	9,711,363	6.1%	31,073	5.0%	33,123	5.1%
2005	22,811	1.7%	295,898	0.9%	756,686	8.6%	10,252,849	5.6%	33,172	6.8%	34,650	4.6%
2006	23,368	2.4%	298,751	1.0%	824,281	8.9%	10,977,312	7.1%	35,275	6.3%	36,744	6.0%
2007	23,843	2.0%	301,617	1.0%	878,139	6.5%	11,631,571	6.0%	36,829	4.4%	38,564	5.0%
2008*	24,327	2.0%	304,566	1.0%	918,921	4.6%	12,122,110	4.2%	37,774	2.6%	39,801	3.2%
2009*	24,807	2.0%	307,026	0.8%	924,120	0.6%	11,978,064	(1.2)%	37,253	(1.4)%	39,013	(2.0)%

\* Information presented is subject to revision. 2009 numbers include some forecast model quarterly estimates for the latter part of the year.

The sources revise historical data due to more complete information, census updates and changes in methodology.

Source: U.S. Bureau of Economic Analysis, U.S. Bureau of the Census and Texas Comptroller of Public Accounts.

## Texas and U.S. Employment and Unemployment Rates Last Ten Years

(Thousands of Jobs and Percent)

Year	Nonfarm Employment				Unemployment Percentage Rate	
	Texas	Percent Change	U.S.	Percent Change	Texas	U.S.
2000	9,432	3.0%	131,794	2.2%	4.2%	4.0%
2001	9,514	0.9%	131,830	0.0%	4.8%	4.7%
2002	9,416	(1.0)%	130,340	(1.1)%	6.3%	5.8%
2003	9,370	(0.5)%	129,996	(0.3)%	6.7%	6.0%
2004	9,497	1.4%	131,419	1.1%	6.0%	5.5%
2005	9,740	2.6%	133,699	1.7%	5.3%	5.1%
2006	10,066	3.3%	136,098	1.8%	4.9%	4.6%
2007*	10,395	3.3%	137,604	1.1%	4.4%	4.6%
2008*	10,617	2.1%	137,046	(0.4)%	4.9%	5.8%
2009*	10,396	(2.1)%	131,970	(3.7)%	7.5%	9.2%

\* 2007, 2008 and 2009 numbers are subject to benchmark revisions. 2009 numbers include estimates for the latter part of the year.

Source: Texas Workforce Commission, Texas Comptroller of Public Accounts and U.S. Bureau of Labor Statistics. Historical data have been revised.

## STATE OF TEXAS

**Statistical Section – Operating Information**  
**Full-Time Equivalent Employees by Function**  
**Last Ten Fiscal Years**

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
<b>FUNCTION</b>										
General Government	12,981	13,472	13,362	13,607	13,034	13,435	12,999	13,438	13,155	13,720
Education	122,009	124,871	129,767	133,857	134,456	140,367	144,636	146,944	152,121	156,375
Employee Benefits	313	309	314	315	302	292	294	302	311	325
Teacher Retirement Benefits	397	418	437	441	440	451	444	445	454	476
Health and Human Services	54,923	53,023	53,420	52,238	49,288	48,389	49,097	50,910	53,161	56,067
Public Safety and Corrections	52,699	52,133	52,405	53,231	51,473	51,397	51,564	50,889	50,340	52,165
Transportation	14,751	14,926	14,845	14,717	14,078	14,551	14,744	14,748	14,148	13,257
Natural Resources and Recreation	8,062	8,172	8,370	8,299	7,990	8,053	8,018	8,014	8,264	8,484
Regulatory Services	3,931	3,933	3,973	3,882	3,779	3,882	3,869	3,828	3,891	4,048
Total FTE's	<u>270,066</u>	<u>271,257</u>	<u>276,893</u>	<u>280,587</u>	<u>274,840</u>	<u>280,817</u>	<u>285,665</u>	<u>289,518</u>	<u>295,845</u>	<u>304,917</u>
Percentage Change	0.1%	0.4%	2.1%	1.3%	(2.0)%	2.2%	1.7%	1.3%	2.2%	3.1%

Source: Texas State Auditor's Office.

## STATE OF TEXAS

**Statistical Section – Operating Information**  
**Capital Asset Statistics by Function**  
**Last Three Fiscal Years**

Function	2007	2008	2009
<b>GENERAL GOVERNMENT</b>			
Number of TBPC Owned Facilities	75	137	137
State Real Property Inventory in Acres	1,322,123	1,325,319	1,329,671
<b>EDUCATION</b>			
Number of School Districts (Independent and Common)	1,031	1,031	1,031
Number of Students	4,576,933	4,671,493	4,749,571
Number of Higher Education Institutions	145	145	145
<b>HEALTH AND HUMAN SERVICES</b>			
Number of State Mental Health Facilities	39	39	39
Number of State Hospitals	10	11	11
<b>PUBLIC SAFETY AND CORRECTIONS</b>			
Number of State Prisons – TDCJ only	106	112	113
Number of available beds (capacity)	156,652	160,622	159,656
Number of authorized vehicular state patrol units	1,281	1,281	1,494
<b>TRANSPORTATION</b>			
Centerline Miles of Highways*	79,849	79,975	80,066
Number of Bridges**	32,996	33,118	33,393
<b>NATURAL RESOURCES AND RECREATION</b>			
Number of State Parks Managed	110	93	93
Number of Park Acreage	602,892	605,470	614,790

\* Highway miles = state maintained centerline miles (miles traveled in one direction regardless of the number of lanes in a roadway).

\*\* Number of bridges is the bridges owned by the state. TxDOT also works on off-system bridges (county and city-owned bridges).  
Off-system bridges are not included in the number of bridges total.

Source: Various state agencies and official state agency Web sites.

# Statistical Section – Operating Information

## Operating Indicators by Function

### Last Three Fiscal Years

Function	2007	2008	2009
<b>GENERAL GOVERNMENT / REGULATORY SERVICES</b>			
Number of Tax Returns Processed	4,251,103	4,054,947	4,471,082
Number of Licenses Issued	1,166,069	1,243,330	1,310,014
<b>EDUCATION</b>			
Average Daily School Attendance (ADA)	4,260,406	4,326,176	4,420,134
Percent of Students Passing TAKS Test*	70%	72%	74%
Texas Higher Education Enrollments	1,228,897	1,264,286	1,378,056
Higher Education Degrees Awarded**	193,321	198,298	N/A
<b>HEALTH AND HUMAN SERVICES</b>			
Number of Medicaid Clients Served	2,832,214	2,877,203	3,002,731
Number of TANF Clients Served ***	145,838	125,309	113,786
Number of Immunizations ***	12,827,417	12,771,928	9,607,193
<b>PUBLIC SAFETY AND CORRECTIONS</b>			
Number of New Prison Population	73,525	74,283	72,738
Number of Prison Population Released	72,032	72,002	72,218
Average Daily Prison Population	152,805	155,588	155,432
Authorized Number of Troopers Patrolling Texas Highways	1,689	1,709	1,825
<b>TRANSPORTATION</b>			
Number of Construction Contracts Processed For Letting	877	694	710
Number of Lane Miles Receiving Roadway Surface Improvements: – By Contract	13,197	8,462	15,671
– Via State Sources	5,984	6,344	5,910
Number of Vehicles Registered	21,432,773	24,359,319	24,607,246
<b>NATURAL RESOURCES AND RECREATION</b>			
Number of State Parks Visits (In Millions)	4.9	4.3	4.5
Number of Parks and Wildlife Licenses Issued****	2,665,045	2,892,695	2,932,002

\* The “Percent of Students Passing TAKS test” is from the 2008-09 TEA AEIS report at: <http://www.tea.state.tx.us/perfreport/aeis/2009/state.pdf>. These scores represent the “TAKS Met 2009 Standard (Sum of All Grades Tested)(Standard Accountability Indicator).”

\*\* The 2009 degrees conferred will not be available until later in 2010.

\*\*\* TANF fiscal 2009 is based on data through November 2009, but will not be finalized until March 2010. The number of immunizations is lower in 2009 due to a revision to automated system initiated by CDC, which made it unable to capture doses administered data. A new mechanism will be available in future years to fully capture this data.

\*\*\*\* Includes commercial and recreational licenses, stamps, tags and permits. Does not include items such as hunting lease license sales, collector's stamp sales, hunt drawing sales and other similar items sold through the Point-of-Sale System.

Other Sources: Various state agencies, state agency reports and official state agency Web sites.







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